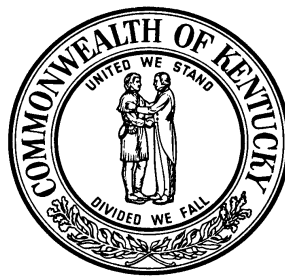


**REPORT OF THE STATEWIDE SINGLE AUDIT OF THE
COMMONWEALTH OF KENTUCKY**

VOLUME II

**For the Year Ended
June 30, 2012**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

March 22, 2013

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of the Commonwealth of Kentucky-Volume II for the year ended June 30, 2012. Our Statewide Single Audit of the Commonwealth of Kentucky report will be transmitted in two volumes in order to meet reporting guidelines established by the American Institute of Certified Public Accountants. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. Volume I was issued under a separate cover. Volume II contains the *Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133*, federal award findings and questioned costs identified during our audit, and the summary schedule of prior audit findings.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 2012, the threshold for auditing federal programs was \$29,969,041.

On behalf of the Office of Financial Audits of the Auditor of Public Accounts' Office, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Libby Carlin, Assistant Auditor of Public Accounts, or me.

Respectfully submitted,

Adam H. Edelen
Auditor of Public Accounts



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INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2012**

Single Audit

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

SSWAK - Volume I contains financial reporting information based on our audit of the CAFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

SSWAK - Volume II contains elements required under OMB Circular A-133, including the *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, and the Schedule of Findings and Questioned Costs.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings section is reported in SSWAK Volume I. The Federal Award Findings and Questioned Costs, presented within this report, lists findings related to federal awards. For the Federal Award Findings, material weaknesses and material instances of noncompliance are presented first, then significant deficiencies and reportable instances of noncompliance.

Summary Schedule of Prior Audit Findings

Audit findings related to federal awards reported in the Schedule of Findings and Questioned Costs for FY 2011, as well as any previous federal awards findings that have not been resolved in the past three fiscal years, are reported in the Summary Schedule of Prior Audit Findings for FY 2012.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior audit finding was a material weakness, significant deficiency or a noncompliance. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Audit Approach

The scope of the statewide single audit for FY 2012 included:

Financial

- An audit of the basic financial statements and combining financial statements;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA sufficient to give an opinion in relation to the basic financial statements;
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls, where applicable; and
- Findings related to internal control and compliance over financial reporting, when noted during the audit of the CAFR.

Federal Awards

- An audit of compliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each major federal program; and
- Test of internal control over compliance in accordance with OMB Circular A-133.

Component Units

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending federal awards. The Commonwealth has elected to exclude discretely presented component units from the statewide single audit, except as part of the audit of the basic financial statements. Thus, discretely presented component units are not included in the report on compliance and internal control and corresponding Schedule of Findings and Questioned Costs. It should be noted, however, that these entities are still required to have audits performed in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if applicable.

LIST OF ABBREVIATIONS/ACRONYMS

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2012**

ADM	Administration
ADO	Annual Disclosure of Ownership
ADP	Automated Data Processing
AML	Abandoned Mine Lands
AMLR	Abandoned Mine Land Reclamation Program
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
BI	Business Intelligence
CAFR	Comprehensive Annual Financial Report
CDE	Chief District Engineer
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CMS	Center for Medicare and Medicaid Services
CSE	Child Support Enforcement
CSEPP	Chemical Stockpile Emergency Preparedness Program
DAML	Division of Abandoned Mine Lands
DCB	Division of Construction Procurement
DCBS	Department of Community Based Services
DMA	Department for Military Affairs
DMS	Department for Medicaid Services
DNR	Department of Natural Resources
DUA	Department of Unemployment Assistance
DUNS	Data Universal Numbering System
DWI	Department for Workforce Development
EBT	Electronic Benefits Transfer
ECF	Electronic Case File
EEC	Energy and Environment Cabinet
EFO	Emergency Feeding Organization
eMARS	enhanced Management Administrative Reporting System
EOC	Emergency Operations Center
EQRO	External Quality Review Organization
ERA	Eligible Recipient Agency
ESEA	Elementary and Secondary Education Act
FAD	Family Alternatives Diversion
FAIN	Federal Award Identifier Number
FEMA	Federal Emergency Management Agency
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
FSM	Family Support Memorandum
FSRS	FFATA Sub-Award Report System
FSS	Field Services Supervisor
FTE	Full Time Equivalent
FY	Fiscal Year

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

GAP	General Administration & Personnel
GAPS	General Administrative and Program Support
IDEA	Individuals with Disabilities Act
ISP	Immediate Services Program
JCCIGC	Jackson County Committee on Intergenerational Care, Inc.
KAR	Kentucky Administrative Regulations
KAMES	Kentucky Automated Management Eligibility System
KASES	Kentucky Automated Support and Enforcement System
KC	Kinship Care Program
KCCRB	Kentucky Community Crisis Response Board
K-CHIP	Kentucky Children's Health Insurance Program
KDA	Kentucky Department of Agriculture
KDE	Kentucky Department of Education
KRS	Kentucky Revised Statutes
K-TAP	Kentucky Transitional Assistance Program
KWP	Kentucky Works Program
KY	Kentucky
KYDEM	Kentucky Department of Emergency Management
KYEM	Kentucky Division of Emergency Management
KYTC	Kentucky Transportation Cabinet
LEA	Local Education Agency
LPA	Local Public Agency
MAP	Medical Assistance Program
MCO	Managed Care Organizations
MCOB	Managed Care Oversight Branch
MMIS	Medicaid Management Information Service
MOA	Memorandum of Agreement
MOE	Maintenance of Effort
MUNIS	Municipal Uniform Information System
OCSE	Office of Child Support Enforcement
OET	Office of Employment and Training
OIG	Office of Inspector General
OLP	Office of Local Programs
OMB	Office of Management and Budget
OSM	Office of Surface Mining, U.S. Department of the Interior
PBA	Pharmacy Benefits Administrator
PER	Personnel
PSC	Personal Service Contract
SA	State Agency
SEA	State Education Agency
SEEK	Support Educational Excellence in Kentucky
SEFA	Schedule of Expenditures of Federal Awards
SFY	State Fiscal Year
SNAP	Supplemental Nutrition Assistance Program

**COMMONWEALTH OF KENTUCKY
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

SSAE	Statement on Standards for Attestation Engagements
SSWAK	Statewide Single Audit of Kentucky
TANF	Temporary Assistance for Needy Families
TC	Transportation Cabinet
TCM	Targeted Case Management
TEBM	Transportation Engineering Branch Manager
TEFAP	The Emergency Food Assistance Program
TWIST	The Workers Information System
U.S.	United States
USC	U.S. Code
USDA	United States Department of Agriculture
USDOE	U.S. Department of Education
WIA	Workforce Investment Act

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Steven L. Beshear, Governor
Cabinet Secretaries and Agency Heads
Members of the Commonwealth of Kentucky Legislature

Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of the Commonwealth of Kentucky (Commonwealth) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2012. The Commonwealth's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

As described in item 12-DMA-56 in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding allowable costs and subrecipient monitoring applicable to its DMA Chemical Stockpile and Emergency Preparedness Program. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.



Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133 (Continued)

In our opinion, except for the noncompliances described in the preceding paragraph, the Commonwealth complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-CHFS-57, 12-CHFS-58, 12-CHFS-59, 12-CHFS-60, 12-CHFS-61, 12-CHFS-62, 12-CHFS-63, 12-CHFS-64, 12-CHFS-65, 12-CHFS-66, 12-CHFS-67, 12-DMA-68, 12-DMA-69, 12-DMA-70, 12-DMA-71, 12-DWI-72, 12-EEC-73, 12-EEC-74, 12-EEC-75, 12-KDA-76, 12-KDA-77, 12-KDE-78, 12-KDE-79, 12-KDE-80, 12-KDE-81, 12-KYTC-83, 12-KYTC-84, and 12-KYTC-85.

Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-DMA-56 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal

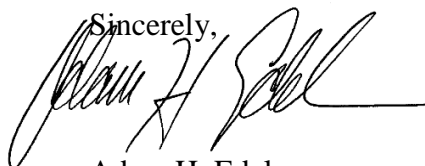
Report on Compliance With Requirements That Could Have a Direct and
Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133 (Continued)

control over compliance described in the accompanying schedule of findings and questioned costs as items, 12-CHFS-57, 12-CHFS-58, 12-CHFS-59, 12-CHFS-60, 12-CHFS-61, 12-CHFS-62, 12-CHFS-63, 12-CHFS-64, 12-CHFS-65, 12-CHFS-66, 12-CHFS-67, 12-DMA-68, 12-DMA-69, 12-DMA-70, 12-DMA-71, 12-DWI-72, 12-EEC-73, 12-EEC-74, 12-EEC-75, 12-KDA-76, 12-KDA-77, 12-KDE-78, 12-KDE-79, 12-KDE-80, 12-KDE-81, 12-KYTC-82, 12-KYTC-83, 12-KYTC-84, 12-KYTC-85 to be significant deficiencies.

We also noted certain immaterial instances of noncompliance and other matters involving internal control over compliance, which we have communicated to management in separate letters.

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, members of the legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


Adam H. Edelen
Auditor of Public Accounts

March 8, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued unqualified opinions on the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2012.

Compliance: In relation to the audit of the basic financial statements of the Commonwealth, the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth's internal control over financial reporting disclosed three material weakness and 52 significant deficiencies.

Federal Awards

Compliance: We issued a qualified opinion on the Commonwealth's compliance with allowable cost and subrecipient monitoring requirements for one of its major federal programs. The results of our auditing procedures disclosed 29 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. We believe one of these instances of noncompliance is material.

Internal Control Over Compliance: Our consideration of the Commonwealth's internal control over compliance disclosed 29 significant deficiencies and one material weakness.

Identification of Major Programs

The Commonwealth identified clusters by gray shading.

Major Type A programs

CFDA	Program Title
Supplemental Nutrition Assistance Program Cluster:	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
15.252	Abandoned Mine Land Reclamation (AMLR) Program
17.225	Unemployment Insurance
17.225	ARRA - Unemployment Insurance
Workforce Investment Act Cluster:	
17.258	WIA Adult Program
17.258	ARRA-WIA Adult Program
17.259	WIA Youth Activities
17.259	ARRA-WIA Youth Activities
17.278	WIA Dislocated Worker Formula Grants

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type A programs (Continued)**CFDA Program Title**

Highway Planning and Construction Cluster:

20.205	Highway Planning and Construction
20.205	ARRA-Highway Planning and Construction
20.219	Recreational Trails Program

Title I, Part A Cluster:

84.010	Title I Grants to Local Educational Agencies
84.389	ARRA-Title I Grants to Local Educational Agencies, Recovery Act

Special Education Cluster:

84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.391	ARRA-Special Education Grants to States, Recovery Act
84.392	ARRA-Special Education Preschool Grants, Recovery Act

84.367	Improving Teacher Quality State Grants
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Temporary Assistance for Needy Families Cluster:

93.558	Temporary Assistance for Needy Families
93.714	ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program

93.568	Low-Income Home Energy Assistance
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Child Care Cluster:

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund

93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program

Medicaid Cluster:

93.720	ARRA-Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.778	ARRA-Medical Assistance Program

Disability Insurance/Supplemental Security Income Cluster:

96.001	Social Security - Disability Insurance
--------	--

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**Identification of Major Programs (Continued)**Major Type B programs**CFDA Program Title****Emergency Food Assistance Cluster:**

10.568	Emergency Food Assistance Program (Administrative Costs)
10.568	ARRA- Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)

15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining

Federal Transit Cluster:

20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
20.507	ARRA-Federal Transit - Formula Grants

20.932 ARRA - Surface Transportation - Discretionary Grants for Capital Investment

School Improvement Grants Cluster:

84.377	School Improvement Grants
84.388	ARRA - School Improvement Grants, Recovery Act

84.287 Twenty-First Century Community Learning Centers
 93.563 Child Support Enforcement
 97.036 Disaster Grants - Public Assistance
 97.040 Chemical Stockpile Emergency Preparedness

Dollar Threshold Used To Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$29,969,041 million.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

See SSWAK Volume I for the FY 2012 Financial Statement Findings one through 55.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles & Subrecipient Monitoring

Amount of Questioned Costs: \$ 30,192

As part of our review of the Chemical Stockpile Emergency Preparedness Program's (CSEPP) monitoring of subrecipients we continue to note deficiencies in the internal controls over reimbursements related to the usage of the 1801 reimbursement form. Subrecipients can request reimbursement for CSEPP related expenditures by completing and submitting an 1801 reimbursement form. These forms are to be signed by the CSEPP's director and must be supported by adequate supporting documentation. Our review of the documentation supporting the 1801 reimbursement requests noted the following deficiencies:

Jackson County

During our FY 10 audit we noted monthly rent payments submitted for reimbursement by Jackson County to the Jackson County Committee on Intergenerational Care, Inc. (JCCIGC). These costs were questioned because Kentucky Division of Emergency Management (KYEM) had no record of a lease agreement, the Jackson County Judge Executive was listed as the Board Chairman of JCCIGC, and the Jackson County Fiscal Court owns the building they are paying to rent. Even after we questioned these costs in FY10, we continue to find these expenditures in FY11 and FY12. In our FY12 sample of expenditures we noted payments totaling to \$17,700. KYDEM has not been able to provide any additional information and has not investigated these expenditures.

We noted two payments to reimburse individuals. The first was a payment of \$267. The support for this payment was a gas receipt and a generic carbon receipt for battery tenders. The name/address for the vendor was stamped onto the receipt. The second transaction is a payment of \$1,250 to an individual for website maintenance, updates, domain and hosting renewal. Both these reimbursements are questioned due to inadequate supporting documentation

We also noted questionable food purchases. The first request for reimbursement was to a grocery store for \$98. The second request for reimbursement was to the Jackson County CSEPP Director for receipts totaling \$42. The receipts in the second request did not include the dates purchased. Also, the CSEPP Cooperative Agreement states that food expenses are only allowable for volunteers of exercises. There was no documentation that these expenses were for allowable purposes.

We noted text messaging charges in excess of normal monthly wireless charges totaling \$534. These charges were as high as \$153 in one month. We question these expenses being both excessive and non-essential to the grant.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)**

Rockcastle County

We questioned \$2,000 that Rockcastle County requested for reimbursement for administration support. CSEPP counties received additional funds in their budgets a few years ago for the additional administration support needed to provide KYDEM with the additional supporting documents for 1801 reimbursement requests. Rockcastle County was reimbursed for the total budgeted amount without documentation that a staff member actually provided that administrative support.

Jessamine County

We noted Jessamine County requested reimbursement for personal cell phone bills of the Jessamine County CSEPP Director totaling \$711. This included five instances where the entire bill was reimbursed and two instances where \$49 and \$50 of the total bill were reimbursed. The Jessamine County CSEPP Director's cell phone plan included voice minutes, premium messaging, unlimited data, as well as text messaging and picture/video messaging charges. But we did note that Jessamine County did deduct the Kentucky Sales tax from the amounts reimbursed. The KYDEM CSEPP Branch Manager stated to us that Jessamine County does not manage a County cell phone system. However we have copies of cell phone bills in the name of Jessamine County Fiscal Court that are submitted for partial reimbursement from the CSEPP grant in addition to the cell phone bills from the Jessamine County CSEPP Director discussed above. These bills were included in the same 1801s reviewed. We question these expenses because KYDEM did not evaluate these to determine if they are more cost effective than adding a line to the county's contract and took no steps to separate out personal and business costs from these personal cell phone bills.

Jessamine County requested reimbursement for an Apple iPhone 4 purchased by the Jessamine County CSEPP Director. Support provided for the purchase was a copy of the Jessamine County CSEPP Director's personal credit card statement along with a receipt from Verizon Wireless totaling \$212. As discussed above, the KYDEM CSEPP Branch Manager stated that Jessamine County does not manage a County cell phone system and there is proof that Jessamine County has a cell phone plan. We question these expenses because KYDEM did not take any steps to determine if this is allowable and if it is more cost effective than the county providing the CSEPP Director a phone through the County's wireless plan.

Laurel County

We noted \$39 in coffee and coffee stirs were requested for reimbursement. The CSEPP Cooperative Agreement states that food related items are only allowable for volunteers of exercises. There was no information provided to document that these expenses were allowable.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)

Laurel County was reimbursed a total of \$3,439 to reimburse one employee for expenses for two Laurel County employees attending a CSEPP conference in Portland, Oregon. We should note that a total of four people went on the trip: two employees and each took one guest. However, it appears that only expenses for the two employees were submitted for reimbursement and it appears that one guest stayed in the hotel rooms of each employee. According to flight tickets they departed from Kentucky on Sunday June 19, 2011 and arrived back in Kentucky on Saturday June 25, 2011. We learned that the CSEPP conference was only held from Monday (June 20, 2011) to Thursday (June 23, 2011). There was a memo included in the 1801 reimbursement form from a Laurel County employee stating that the KYDEM CSEPP Branch Manager gave them permission to stay one night beyond the end of CSEPP conference due to the limited flights out of Portland, Oregon following the end of the Conference. We confirmed this with the KYDEM CSEPP Branch Manager. However, as we reviewed the receipts submitted for reimbursement we found multiple questionable items. The most note worthy include (rounded to the nearest dollar):

- \$30 requested (undated receipt) from a restaurant in Gresham, Oregon; 16 miles from the CSEPP conference.
- \$15 requested from an undated and unitemized receipt that says only "Guest Receipt".
- \$3 receipt for sunflower seeds, lemon-lime soda, and an orange soda on June 20, 2011 from a grocery store in Banks, Oregon; 27 miles from the CSEPP conference.
- \$16 requested from a restaurant in Lincoln City, Oregon on June 20, 2011; 93 miles from the CSEPP conference.
- \$3 for a bottled soda from the hotel in Portland, Oregon on June 21, 2011; the location of the CSEPP conference.
- \$20 requested for fuel from a gas station in Cascade Lock, Oregon on June 21, 2011; 41 miles from the CSEPP conference.
- \$2 requested for a beverage from a gas station on June 22, 2011 in Cascade Locks, Oregon; 41 miles from the CSEPP conference.
- \$48 requested from a restaurant in Portland Oregon on June 22, 2011; 2 miles from the CSEPP conference.
- \$57 requested for fuel, corn nuts, rollos, and beverages from a gas station in Creswell, Oregon on June 23, 2011; 121 miles from the CSEPP conference.
- \$6 requested from a restaurant in Crescent City, California on June 24, 2011; 331 miles from the CSEPP conference.
- \$57 for fuel from a gas station in Grants Pass, Oregon on June 24, 2011; 251 miles from the CSEPP conference.

We noted they checked into two rooms at the hotel in Portland, Oregon (location of CSEPP conference) on June 19, 2011. They checked out of these rooms on June 23, 2011. We should note that the hotel invoices included \$71 reimbursed for the hotel restaurant. They then checked into two rooms

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)**

at another hotel, in Crescent City, California (331 miles from the CSEPP conference) on June 23, 2011 and checkout of those rooms on June 24, 2011. Two invoices were submitted for reimbursement from the hotel totaling \$185. After checking out of the hotel they drove back to Portland, Oregon to catch their flight home. The CSEPP Cooperative Agreement states that "Travel and per diem for all CSEPP purposes except medical" are allowable. It also states that "Travel to non-CSEPP events" is unallowable. Therefore we are questioning this entire amount. Laurel County should have only requested reimbursement for meals on a per diem basis as stipulated in the Cooperative Agreement. Also, when considering all the expenses and the distances for meal receipts it is questionable if these employees were attending the conference.

During our inquiry into these issues, we were provided additional information from Laurel County Fiscal Court through KYDEM. Provided to us was an excerpt of Laurel County's travel policy as well as Laurel County's response to our questioned costs. CSEPP should reimburse travel of Laurel County staff based on the local travel policy. The excerpt of the Laurel County Fiscal Court travel policy had two items noted. It states in part: "Expense Reimbursement; Economy is required. Cost should be the most economical consistent with the County's best interest. (1) Any employee of the county incurring expense for prior approved county related business or travel, meals, and expenses outside the county shall be reimbursed as follows: [C]Other necessary expenses may be authorized and approved for reimbursement at the actual rate of expenditure, as deemed appropriate. This shall include expenses for meals and lodging. [H]Other necessary expenses which were unforeseeable prior to travel may be approved by the County Judge/Executive, with the approval of the fiscal court, upon presentation of documentation of the need for such expense."

Review of Laurel County's travel policy further strengthens our position that these costs are both unallowable and excessive. The CSEPP conference was held at a single location, at the hotel in Portland, Oregon. Per Laurel County's travel policy it would have been most economical to use a cab, shuttle, or public transportation. The use of the rental car and fuel expense was strictly for personal purposes.

Also, part C states "Other necessary expenses may be authorized and approved for reimbursement at the actual rate of expenditure, as deemed appropriate..." and part H states, "Other necessary expenses which were unforeseeable prior to travel may be approved by the County Judge/Executive, with the approval of the fiscal court, upon presentation of documentation for the need of such expense." KYDEM does not have authorization or approval by the Judge or Fiscal Court that the need to travel such distances from the hotel for meals, the need of a rental car, or the trip to California after the conference was needed per the local travel policy.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)**

We were also provided Laurel County's justification by KYDEM; Laurel County stated the one night beyond the end of the conference was approved because it saved two hundred dollars per airline ticket. They also stated that staying at the hotel in Crescent City, California, which was an ocean front hotel, saved \$34.73 per room and the free breakfast saved \$14.30 per employee. We disagree with this rationalization because it leaves out the rent for the car that the employees used and the fuel expenses for the estimated 662 mile round trip. This travel is unallowable for CSEPP because it is for a non-CSEPP related event and it violates the local travel policy.

Laurel County was reimbursed \$3,900 for a bid in the name of an individual. Laurel County was reimbursed even though the supporting documentation clearly stated "Bid Only." After we questioned this expense to KYDEM, we were provided the actual invoice for work performed. We still question this cost. KYDEM only obtained the invoice after we questioned the expense. The reimbursement to Laurel County was approved based upon inadequate supporting documentation.

KYDEM has nurtured an environment that does not promote professional skepticism nor encourages compliance with applicable regulations. Over the past several audits of the CSEPP program, numerous memos and policies have been written by KYDEM management to require additional oversight and additional documentation for the 1801 reimbursement process. However, these policies do not seem to be effective and continue to fail to ensure compliance.

The cause year after year continues to be that KYDEM staff does not review 1801s and the supporting documents.

The lack of effective internal controls to adequately review subrecipient reimbursement requests leads to payments of questionable expenditures. KYDEM's CSEPP branch's failure to identify inadequate supporting documentation and unallowable costs leads to the payment of questionable costs. Furthermore, these are recurring problems, noted in several past audits that led the auditors to believe that these internal control issues are pervasive, and could lead to higher questioned costs than the amount we detect in our sample. Due to these weaknesses, as well as additional subrecipient monitoring deficiencies reported in a separate finding, KYDEM is not compliant with subrecipient monitoring requirements applicable to CSSEP.

2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (formerly OMB Circular A-87), C, Post Award Administration, 3, Monitoring states in part:

The recipient is responsible for monitoring award activities, to include sub-awards, to provide reasonable assurance that the Federal award is administered in compliance with requirements. Responsibilities include the accounting of receipts and expenditures, cash management, maintaining of adequate financial records, and refunding expenditures disallowed by audits.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department Of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)**

44 CFR Part 13; Subpart C-Post-Award Requirements; Financial Administration states in part:

§13.20 Standards for financial management systems.

A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contracts, must be sufficient to-Permit preparation of reports required by this part and the statutes authorizing the grant, and Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Recommendation

We recommend the following:

- KYDEM should review its subrecipient monitoring process and take steps to implement strong internal controls to ensure effective subrecipient monitoring procedures.
- KYDEM should begin reviewing 1801 reimbursement requests. KYEM should ensure employees have appropriate knowledge of allowable/unallowable costs as outlined in the Cooperative Agreements and federal guidelines. KYEM should also ensure employees are aware of adequate supporting documentation requirements.
- KYDEM should encourage staff reviewing 1801 documents to have professional skepticism and to review for obvious unreasonable expenditures.
- KYDEM should communicate to all subrecipients the 1801 reimbursement requirements and what is acceptable and not acceptable. Providing a training session for discussion of these items may be a good starting point.
- KYDEM should establish policies on cell phone usage it considers reasonable and beneficial to the grant. KYDEM should also establish policies outlining if personal cell phones are allowable and if so, to what extent.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-56: The Department of Military Affairs Failed To Strengthen Controls Over The 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program (Continued)**

Recommendation (Continued)

- KYDEM should establish a tone throughout the organization that encourages compliance with all appropriate guidelines and that it supports good stewardship of all federal, state, and local funds. KYEM should cultivate a working environment that encourages employees to review cost reimbursements and apply professional skepticism of the documentation with the goal of effective administration of CSEPP policies. Management should make staff aware of the importance of detecting fraud/misuse and that strong internal controls are useful in discouraging fraud/misuse.

Management's Response and Corrective Action Plan

Kentucky Division of Emergency Management (KYEM) neither condones nor nurtures any non-compliance with state or federal regulations nor is there a mindset that does not encourage safeguarding State and Federal resources. KYEM does review and pre-audit all Chemical Stockpile Emergency Preparedness Program (CSEPP) 1801 reimbursement forms. The KYEM CSEPP Program Manager will conduct an internal review of expenditures covered during this audit period and will require sub-recipient repayment of ineligible expenses.

KYEM distributed written revised reimbursement guidelines after previous audit recommendations to all CSEPP staff and sub-recipients. KYEM developed and distributed an example guide on best practices for submitting accurate and allowable 1801s for reimbursement for allowable cost. KYEM conducted training sessions during CSEPP Initial Planning & Training (IPT) and during meetings in Frankfort utilizing Process Action Team (PAT) with Federal, State, and Local agencies involved. This guidance has strengthened and enhanced the supporting documentation required for reimbursement. Questioned expenditures occurred prior to updated guideline distribution and training. KYEM will continue to re-train the CSEPP staff and sub-recipients on what documentation is required to support the reimbursement of allowable and unallowable costs as stated in CFR 2 Part 225, the Cooperative Agreement, and DMA and KYEM policies. KYEM will continue to improve established policies and procedures to include conducting bi-annual site visits to verify equipment specifications, the condition of, and serviceability of essential equipment.

By 1 June 2013, KYEM-CSEPP program manager will complete his internal review of expenditures and require the repayment of ineligible expenses. The Administrative Branch will reinforce measures to ensure staff has knowledge of allowable and unallowable costs stated in the Cooperative Agreement and the guidelines in 2 CFR Part 225 by distributing copies of the Cooperative Agreement and by working with Process Action Teams, the CSEPP IPT and the KYEM sub-recipient teams to ensure proper training and understanding procedures with proper verification of receipts.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-57: The Cabinet For Health And Family Services Does Not Have A Sufficient System In Place For Federal Reporting**

State Agency: Department of Income Support

Federal Program: CFDA 93.563 - Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

The Cabinet for Health and Family Services' Office of Child Support Enforcement (CSE) is required to submit the OCSE-34A-Collections Report to the Federal Government annually. During the FY12 audit, we tested the OCSE-34A report reconciliation and noted the report information that is provided by the Kentucky Automated Support and Enforcement System (KASES) is manually corrected after it is submitted to CSE because of programming errors. The OCSE-34A report requires the monies received or distributed internationally be reported, as well as the \$25 fee removed from the line for Distributed and Undistributed. The fee is already accounted for and, if not removed from these lines, it will be included twice on the report. The agency risks overstating the amounts collected. CSE personnel are also still utilizing percentages to determine amounts allocated to Distributed and Undistributed Collections among the different categories of assistance.

This is an ongoing problem that was reported in the FY08, FY09, FY10, and FY11 audits. In the prior year management response, CSE stated that as of February 27, 2012 the business intelligence solution is now operational. However, at the time of this audit, the manual adjustments were still being performed.

Due to the employees having to manually input the amounts posted, the risk for errors and omissions increases. The OCSE-34A Report that is submitted to the federal government may be inaccurate.

Good internal controls dictate the underlying accounting records are the basis for collections report to the Federal government.

Recommendation

We recommend CHFS take the appropriate steps to update the KASES system to ensure the information reported to the Federal government is accurate and complete.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-57: The Cabinet For Health And Family Services Does Not Have A Sufficient System In Place For Federal Reporting (Continued)**

Management's Response and Corrective Action Plan

The Child Support Enforcement program appreciates the opportunity to respond to the control weakness concerns with the OCSE 34A, Child Support Enforcement Program Quarterly Report for Collections, for SFY 12. The Child Support Enforcement (CSE) program will address the issues related to implementation of the Business Intelligence (BI) solution, and the error with regard to international collections separately.

Business Solution Issue: A Web Portal, which included the BI solution, was implemented as planned in February 2012; however, after implementation, KY CSE found that data validation of the federal reports did not occur before implementation. The OCSE 34A from the BI solution did not reconcile with the system of record, the Kentucky Automated Support Enforcement System (KASES). Initially, resources were concentrated on addressing problems with the customer service aspects of the Web Portal. Efforts to correct the OCSE 34A report were stepped up in late summer with the goal of generating the OCSE 34A from BI before the cutoff for revising the report for quarter ending September 30, 2012. Since the BI report did not reconcile with KASES in the key areas of reimbursed assistance and undistributed collections, CSE determined that CSE would not be able to meet this goal. At this point, CSE consulted with KY's federal financial representative in Atlanta, [Name Withheld] for guidance. [Name Withheld] advised CSE to not submit a revised report for the September quarter using the BI generated report, and once the report reconciles with KASES, CSE can adjust the following quarter, if there is a significant difference between the data. Based upon this federal guidance, CSE submitted the OCSE 34A using the old method. It should be noted that this manual method has never been cited for deficiencies in the federal data reliability audits. Since the CSE discussions with Mr. Hezlep, CSE has continued to work on the OCSE 34 in the BI Solution. The OCSE 34A from the BI solution is much closer to reconciling with the Kentucky Automated Support Enforcement System (KASES); however, progress has slowed, as CSE is now faced with the complicated financial adjustments in a collection and distribution system that has long passed the normal system life cycle.

International Collections and worker error: CSE found that international collections were under- reported by \$5944.18 after review of the report for the quarter ending December 31, 2011. During this quarter, a new payment type was implemented for the incoming international payments and the worker failed to account for payments under the new payment type. International distributions were correctly reported based on the data from KASES. Also, CSE determined that the collection fee was reported correctly as a fee and was not reported a second time as a collection; thus the corresponding distributions were decreased by the fee amounts as they should have been.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-57: The Cabinet For Health And Family Services Does Not Have A Sufficient System In Place For Federal Reporting (Continued)**

Management's Response and Corrective Action Plan (Continued)

The use of percentages to determine the allocation of distributions among the categories of service is a deeper issue than the programming of a report. First, CSE wishes to clarify that only the distributions are reported by category of service, as undistributed collections in many instances have not been allocated to a specific child support case, and the category of service is case specific. The requirement to report distributions by the category of service was implemented many years after the design of KASES. KASES design does not contain sufficient data to maintain the category of service when account numbers change in the KAMES and TWIST systems. In order to achieve consistent reporting, primarily for the "former" and "never" assistance categories, the percentages used for the OCSE 34A are based on the OCSE 157, The Child Support Enforcement Annual Data Report. CSE has tried numerous times to find a solution to this problem, but ultimately this can only be accomplished by a complete redesign of the KASES system, as all major processing programs would be impacted. Estimated replacement cost is up to \$100 million. This capital project has been part of the Cabinet's capital budget request for several biennia, but has not yet been authorized.

To address the worker errors involving international collections, a review process will be established to check calculations for completing the report, as long as manual intervention is necessary. CSE will continue to work on the development of the OCSE 34A report using the Business Intelligence solution to obtain a report that reconciles with KASES without intervention; however, CSE would note that the reporting tool is dependent on the source system for the transactional data used to create the report. With a child support computer system whose financial processes have undergone no major modifications over the last 22 years, there is no guarantee that manual intervention can be avoided in the future. The only foolproof means of addressing the reporting issues and still being able to provide next day issuance of child support payments to Kentucky families is a total system replacement as referenced above. The functional limitations of the current KAMES system preclude certain system upgrades or improvements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-58: The Department For Medicaid Services Does Not Have Proper Tools Or Controls In Place To Monitor Federal Compliance Of Utilization Control And Program Integrity

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative
CFDA 93.775 - State Medicaid Fraud Control Units
CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)
CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Department for Medicaid Services (DMS) does not have the proper tools or controls in place to monitor federal compliance of utilization control and program integrity.

During the FY 2012 audit of the Cabinet for Health and Family Services (CHFS), we reviewed the Managed Care Organizations' (MCO) program integrity plans as well as their reporting requirements for appeals and grievances approved by the Commonwealth. DMS requires all of the MCOs, including Passport, to submit quarterly reports to the DMS Managed Care Oversight Branch (MCOB) concerning appeals and grievances for members and providers. We requested the quarterly reports submitted by the MCOs. Due to the lack of detail in these reports, we could not ensure federal compliance requirements were met. Furthermore, the MCOs are required by the Commonwealth to resolve grievances within a thirty day time period. The reports required from the MCOs do not provide sufficient information for DMS to ensure the grievances were handled in a timely manner.

In addition, the Office of the Inspector General (OIG) receives complaints via their hotline and a variety of other sources. If a complaint is in relation to a MCO, OIG refer that complaint to the MCOB. The MCOB then forwards the complaint on to the MCO for their investigation. It becomes the responsibility of the MCOB to ensure the MCO follows up on the complaint and to update OIG on the status of these cases. During our review of the OIG complaints, we reviewed five cases that were referred to the MCOB and we could not determine the status of the investigation. The MCOB did not properly monitor these cases and failed to communicate the status of the investigation to the OIG.

The MCOs do not submit sufficient reports to DMS for monitoring the program integrity activity of the MCO. Without proper tools for monitoring program integrity, DMS cannot ensure the Commonwealth is meeting federal compliance requirements. In addition, if the MCOB does not properly track and monitor the complaints forwarded to the MCOs, grievances could go unresolved and potential fraudulent activity could be undetected.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-58: The Department for Medicaid Services Does Not Have Proper Tools Or Controls In Place To Monitor Federal Compliance Of Utilization Control And Program Integrity (Continued)**

42 CFR 455.13 states the Medicaid agency must have - (a) Methods and criteria for identifying suspected fraud cases; (b) Methods for investigating these cases that (1) Do not infringe on the legal rights of persons involved; and (2) Afford due process of law; and (c) Procedures, developed in cooperation with State legal authorities, for referring suspected fraud cases to law enforcement officials.

Per agreement between the Commonwealth and MCOs, section 24.1:

Grievance Process, the investigation and final Contractor resolution process for grievances shall be completed within thirty (30) calendar days of the date the grievance is received by the Contractor and shall include a resolution letter to the grievant.”

Per section 27.8 Provider Grievance and Appeals, provider grievances or appeals shall be resolved within thirty (30) calendar days.

Per section 37.8 Grievance and Appeals Reporting Requirements, the Contractor shall submit to the Department on a quarterly basis the total number of Member Grievances and Appeals and their disposition. The report shall be in a format approved by the Department and shall include at least the following information:

- A. Number of Grievances and Appeals, including expedited appeal requests;
- B. Nature of Grievances and Appeals;
- C. Resolution;
- D. Timeframe for resolution; and
- E. QAPI initiatives or administrative changes as a result of analysis of Grievances and Appeals.

The Department or its contracted agent may conduct reviews or onsite visits to follow up on patterns of repeated Grievances or Appeals. Any patterns of suspected fraud or abuse identified through the data shall be immediately referred to the Contractor’s Program Integrity Unit.

Good internal controls dictate that any complaint forwarded to the MCOB should be tracked to ensure that it is resolved.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-58: The Department For Medicaid Services Does Not Have Proper Tools Or Controls In Place To Monitor Federal Compliance Of Utilization Control And Program Integrity (Continued)**

Recommendation

We recommend the structure of the grievances report be re-evaluated to ensure contractual compliance with the MCO grievance process for both member and provider grievances. The report should include, at a minimum, the type of grievance, the date of receipt, the date of resolution, type of resolution, and referral if necessary.

We also recommend a tracking system be developed and implemented at the MCOB to ensure all grievances referred to the MCOs be followed up on and communicated back to the OIG.

Management's Response and Corrective Action Plan

The Department has recently completed an on-site audit of each Managed Care Organization's policies and procedures regarding the grievance and appeals process. It was determined that each MCO did adequately track the date that each grievance or appeal was received and the date that each was resolved or action on the grievance or appeal was completed; however, it was determined that there were differences in the definition of a grievance used by each MCO which limits the ability of the Department to compare one MCO to another. It was also noted that more details needed to be maintained, tracked, and reported by each MCO regarding the outcome of each grievance. The Managed Care Oversight Branch has drafted guidelines for the revised Grievance and Appeal process. The finalized guidelines will be transmitted and explained to the MCOs so that greater consistency between each MCO's process can be achieved, as well as establishing a standard definition of a grievance that is understood by all parties.

In addition to the Department's monitoring of the Grievance and Appeals process, two of the Department's contracted vendors; will conduct or have conducted reviews of the Grievance and Appeals process with a slightly different focus. One vendor performs Market Conduct Reviews of each MCO and will focus on the effectiveness of each plan's internal policies and procedures related to Grievances and Appeals. The Department's certified External Quality Review Organization (EQRO) conducts the Department's federally mandated External Quality Review of each MCO. As part of that review, they will sample specific Grievances and Appeals and analyze those cases and the result for the member to help ensure that the MCO is providing quality health care. As a result of these reviews, DMS will develop and document a defined review process and tracking system. Any inadequacies in the Grievance and Appeal process identified by the Department, through its ongoing review process, or its two external vendor reviews will be presented to each MCO for correction. In addition, the MCOB will periodically update DMS management regarding the status and disposition of appeals and grievances. MCOB will recommend, as appropriate, any further changes to process/procedure or contractual provisions. Failure on the Part of the MCOs to make necessary adjustments would result in an Official Corrective Action Plan notice to the offending MCO.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-59: The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid

State Agency: Department for Community Based Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative
CFDA 93.775 - State Medicaid Fraud Control Units
CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)
CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)
CFDA 93.767 - Children's Health Insurance Program (CHIP)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$ 0

During the FY 2012 audit of the Cabinet for Health and Family (CHFS), we tested member eligibility for the Kentucky Children's Health Insurance Program (K-CHIP) and the Medical Assistance Program (MAP). The Department for Community Based Services (DCBS) determines eligibility for these programs.

To ensure compliance of member eligibility for these programs was sufficiently performed, we reviewed 63 case files for K-CHIP and 63 case files for MAP in seventeen counties. During our testing, we noted CHFS was not in compliance with federal regulations regarding member eligibility. Case files were not available for review and documentation was not maintained at the local DCBS office and/or Electronic Case File (ECF) system to give the assurance that proper eligibility determinations were performed by DCBS personnel. We noted the following exceptions:

K-CHIP

We tested 63 case files and 13 exceptions were noted:

- Six case files were not available for review (five case files in Jefferson County and one case file in Nicholas County)
- Two case files did not have any documentation available in file for member in question (one case file in Bracken County and one case file in Jefferson County)
- Five case files had insufficient documentation available for review in case files (one case file in Fayette County, one case file in Garrard County, one case file in Owsley County, one case file in Pendleton County, and one case file in Wolfe County)

MAP

We tested 63 case files and 14 exceptions were noted.

- Eight case files not being available for review (one case file in Bracken County, one case file in Fayette County, four case files in Jefferson County, one case file in Nicholas County, and one case file in Pendleton County)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-59: The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid (Continued)**

- Six case files had insufficient documentation available for review in case files (two case files in Fayette County, one case file in Garrard County, one case file in Lewis County, one case file in Owsley County, and one case file in Wolfe County)

Proper documentation was not maintained at the local DCBS offices and/or Electronic Case File (ECF) system; thus no assurance can be achieved as to the adherence to proper eligibility determination procedures by DCBS personnel. Inadequate case documentation and improper eligibility determination procedures lead to an increased risk that benefits are being issued to ineligible recipients. CHFS is not in compliance with Federal regulations regarding member eligibility.

OMB Circular A-133 Part 6 states, “The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.”

Per DCBS Operation Manual Volume IV:

MS 1250* CASE RECORD CONTENT - All case records represent a continuing documentation of eligibility for assistance. The case record contains sufficient material to substantiate validity of all authorized assistance.

Per DCBS Operation Manual Volume IV-A:

MS 1372 (B)(2)(c) “Explain the potential for prosecution for committing fraud, and have the individual sign form MA-2, Medicaid Penalty Warning;”

MS 1890 (A) “Form MA-34 MUST be completed for ALL Long Term Care (LTC) or waiver resource assessments, applications, and recertifications, whether or not the individual has an annuity.”

Recommendation

We recommend CHFS DCBS properly train staff to ensure eligibility determinations for Medicaid members are verified by adequate supporting documentation. Furthermore, DCBS offices shall maintain appropriate documentation to support member eligibility determinations in accordance with Federal regulations.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-59: The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid (Continued)****Management's Response and Corrective Action Plan**

DCBS works on a continual basis to identify and implement solutions to assure and improve management of cases, including case documentation. Effective June 2012, Kentucky's Electronic Case File (ECF) management system became operational statewide. ECF is a paperless system that permits workers to scan documents at their desks and attach the scanned documents to an electronic case file. Once the electronic case file is originated and documents are attached, the possibility of a total loss of files is virtually eliminated. As the state moved forward with the phased roll out of the system, certain issues were brought to light that hindered implementation in certain areas. For example, Jefferson County did not have the appropriate bandwidth to handle the volume of documents to be scanned and attached into ECF. This created a backlog of documents to be scanned and attached in the system until the issue was corrected. The issue has been resolved as of this date and Jefferson County has been working to have all documents scanned and attached to the appropriate case file.

Having ECF operational statewide has provided the Department of Community Based Services (DCBS) the opportunity to reevaluate current practices and procedures within field offices in terms of how resources are managed. Additionally, rising caseloads and the future implementation of the Kentucky Health Benefit Exchange has necessitated a need for change in how cases are processed and how work is allocated among field staff. As a result, DCBS has initiated and is piloting a business process redesign project. Under this business process redesign, office resources are organized based on function and activities rather than a 1:1 case worker to client model.

Through the business redesign project, field staff is organized into four groups: client intake; call services; eligibility and enrollment; and support services. Each group performs a defined set of functions. For example, eligibility and enrollment teams conduct application and recertification interviews, while support services teams are responsible for processing pending applications and recertifications upon receipt of verification documentation and will also process any changes made to a case. Under this model, no one worker is responsible for all actions on a case. Many workers are responsible for processing and maintaining a case, establishing an informal review process. Each time a worker touches a case, the case must be reviewed to ensure the last action was worked correctly and the necessary documentation is present. Additionally, for this model to be successful, scanning and attaching documentation is essential, as the documentation drives many of the functions to be performed.

To reinforce the importance of maintaining proper case files, the Division of Service Regions is addressing this issue in the next Service Region Administrators' meeting to be held March 12, 2013. Additionally, the Division of Family Support (DFS) will place a news message on the Kentucky Automated Management Eligibility System (KAMES) regarding the importance of maintaining proper case files. KAMES is the automated system field staff use to conduct

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-59: The Department For Community Based Services Did Not Maintain Supporting Documentation Required To Determine Member Eligibility For Medicaid (Continued)****Management's Response and Corrective Action Plan (Continued)**

eligibility determination for benefits. Placing news messages on KAMES is a tool used to communicate reminders and important information to field staff as the messages must be reviewed the first time a user logs on each day. This will be completed by April 1, 2013. As recommended, DFS will also meet with training staff to strategize ways in which the importance of maintaining proper case files can be emphasized when conducting program training. This meeting will take place prior to May 1, 2013.

Missing case documentation is a significant concern to DCBS. In addition to the actions above, a review of the actual cases with findings has been conducted by DCBS staff. Documentation for many of the cases has been identified and scanned into the ECF case file since the time this audit was conducted. DCBS will continue to work with its field offices to ensure all required and mandatory documentation is included in the appropriate case files.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-60: The Department For Medicaid Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program**

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative
CFDA 93.775 - State Medicaid Fraud Control Units
CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)
CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Department for Medicaid Services (DMS) is required to maintain case files on each eligible Medicaid provider in accordance with state and federal regulations. The provider eligibility case files are scanned into the OnBase application located within the Medicaid Management Information System (MMIS). DMS is also required to re-credential providers every three (3) years to ensure providers maintain their status as an eligible Medicaid provider. Currently, this process consists of verifying updated licensure.

For the FY 2012 Medicaid audit, we tested a sample of 60 provider case files in the OnBase application for compliance with Medicaid Provider Eligibility requirements set forth in the State Plan and noted the following:

- Four providers did not have an Annual Disclosure of Ownership on file.
- One provider did not have a provider agreement on file.
- One provider did not have an updated license on file.
- One provider did not have an Annual Disclosure of Ownership and an updated license on file.

The required documentation was not obtained and scanned into the OnBase application at the time of eligibility determination and/or annually as required. Upon receiving notification of exceptions discovered during the audit, DMS stated that providers would be contacted to obtain all missing documentation; however, we cannot verify that this documentation was obtained and considered during eligibility determination/re-determination. Consequently, the risk exists that providers receiving Medicaid payments were not eligible to participate in the program and any such payments would be considered unallowable program expenditures.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-60: The Department For Medicaid Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program (Continued)

907 KAR 1:672 states:

Section 2 Enrollment Process for Provider Participation in Medicaid:

- (2) To apply for enrollment in the Medicaid Program as a non-credentialed provider, an individual or entity shall:
 - (a) Complete, and submit to the department, the non-credentialed provider section of a MAP-811, Provider Application; and
 - (b) Submit of a valid professional license, registration, or certificate that allows the:
 - 1. Individual to provide services within the individual's scope of practice; or
 - 2. Entity to operate or provide services within the entity's scope of practice.
- (3) To apply for enrollment in the Medicaid Program as a credentialed provider, an individual shall:
 - (a) Complete, and submit to the department, the individual provider application section of a MAP-811, Provider Application;
 - (b) Submit proof of a valid professional license, registration, or certificate that allows the individual to provide services within the individual's scope of practice; and
 - (c) 1. Except for a dentist, submit either:
 - a. A completed KAPER-1, Kentucky Application for Provider Evaluation and Reevaluation; or
 - b. Pursuant to 806 KAR 17:480, Section 2(4), the provider application form of the Council for Affordable Quality Healthcare; or
 - 2. If licensed to practice as a dentist, submit a completed Dental Credentialing Form.
- (9) Re-credentialing. A credentialed provider currently enrolled in the Medicaid Program shall submit to the department's re-credentialing process three (3) years from the date of the provider's initial evaluation or last reevaluation.

Section 3. Required Provider Disclosure:

- (1) A provider shall comply with the disclosure of information requirements contained in 42 C.F.R. 455.100 through 455.106 and KRS 205.8477.
- (2) Time and manner of disclosure. Information disclosed in accordance with 42 C.F.R. 455.100 through 455.106 shall be provided:
 - (a) Upon application for enrollment;
 - (b) Annually thereafter; and
 - (c) Within thirty-five (35) days of a written request by the department or the United States Department of Health and Human Services.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-60: The Department For Medicaid Services Did Not Maintain All Documentation Required To Determine Provider Eligibility For The Medicaid Program (Continued)**

- (3) If a provider fails to disclose information required by 42 C.F.R. 455,.100 through 455.106 within thirty-five (35) days of the department's written request, the department shall terminate the provider's participation in the Medicaid Program in accordance with 907 KAR 1:671, Section 6, on the day following the last day for submittal of the required information.

Recommendation

We recommend CHFS:

- Ensure all documentation required to support provider eligibility is obtained and scanned into the OnBase application.
- Establish more formal policies and procedures for the re-credentialing of providers to include a more thorough review of provider eligibility documentation.

Management's Response and Corrective Action Plan

Recommendation: Ensure all documentation required to support provider eligibility is updated and scanned into the On-Base system.

Response: DMS will ensure that all providers within the system have an end date reflective of their most recent license renewal and also ensure that the Annual Disclosure of Ownership (ADO) process operates more smoothly from a system standpoint. DMS is developing an electronic ADO process to assist in streamlining the process. DMS will be running system reports to identify suspect providers and resolve issues accordingly.

Recommendation: Establish more formal policies and procedures for the re-credentialing of providers to include a more thorough review of provider eligibility documentation.

Response: The Department has a formal process for re-credentialing in place as specified in 907 KAR 1:672. The DMS re-credentialing process consists of verifying licensure (in most instances more than every three years) and verifying sanctions. DMS receives a monthly Medicare Exclusion Database file from CMS and SAM (System for Award Management) to identify if enrolled providers have been sanctioned. This file is compared to the existing providers to identify any providers that may have received a sanction during the prior month. DMS verifies these two elements for re-credentialing because these two elements indicate the greatest risk of impacting provider status. The provider licensure boards verify education and other re-credentialing elements as a condition of licensure; therefore, it is not necessary for DMS to duplicate those efforts. The Department has considered clarifying 907 KAR 1:672 regarding re-credentialing. However, this regulation is currently under review.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-61: The Department For Medicaid Services Does Not Have Adequate Controls In Place To Prevent Ineligible Members From Receiving Targeted Case Management Services

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative

CFDA 93.775 - State Medicaid Fraud Control Units

CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)

CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed

Amount of Known Questioned Costs: \$557

The Kentucky Cabinet for Health and Family Services (CHFS) Department for Medicaid Services (DMS) does not have adequate controls in place to prevent ineligible members from receiving Targeted Case Management (TCM) services. While comparing Medicaid member diagnosis information to legal and regulatory guidelines governing TCM, the auditor noted two members in a sample of sixty who did not qualify for TCM services. Yet during fiscal year 2012, TCM claims were submitted by providers and successfully processed in the Medicaid Management Information System (MMIS) for these members. This system, MMIS, serves as a control against improper payments but failed in that capacity in these instances. As a result, known questioned costs totaled \$557. Additionally, through projecting the error rate from our sample to the entire case management member population, likely questioned costs totaled \$701,694.

DMS personnel voluntarily researched these claims after the auditor brought the issue to their attention. Their research confirmed both members were ineligible for TCM services.

The MMIS, a crucial safeguard and control against improper payments, failed to alert DMS staff of a potentially ineligible member receiving benefits. System edits and audits are relied on heavily to ensure the integrity and correctness of claims processed in the MMIS. An error in the design of these edits and audits allowed an improper claim to process.

If system edits and audits are not identifying improper claims, the DMS could be remitting payment for services not covered by Medicaid and not allowable under federal guidelines. Preventing improper payments is much more cost effective than attempting to recover improper payments already remitted and is a necessary step if the control system is not functioning correctly. If an opportunity exists due to an inadequacy in the MMIS, providers could abuse or defraud the Medicaid program by knowingly providing services to ineligible members.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-61: The Department For Medicaid Services Does Not Have Adequate Controls In Place To Prevent Ineligible Members From Receiving Targeted Case Management Services (Continued)

907 KAR 1:550. Incorporation by reference of the Targeted Case Management Services Audits Manual.

Section 1. "Incorporation by Reference. The cabinet incorporates by reference the Targeted Case Management Services Adults Manual revised September 1, 1992 used in the implementation of this component of the Kentucky Medicaid Program. This manual contains the policies and procedures issued by the cabinet for the implementation of this program element including benefit descriptions and operating instructions used by agency staff and participating providers."

Per DMS Targeted Case Management Services Adult Manual, Section III, Part D Client Qualifications, "Targeted case management services for adults with chronic mental illness shall be limited to Medicaid-eligible adults age 18 and over who meet the following criteria:

- 1) As defined in KRS 210.005, "chronic" (mental illness) means that clinically significant symptoms of mental illness have persisted in the individual for a continuous period of at least two (2) years, or that the individual has been hospitalized for mental illness more than once in the last two (2) years, and that the individual is presently and significantly impaired in his ability to function socially or occupationally or both; and
- 2) Have a diagnosis of a major mental disorder (other than substance abuse or mental retardation as the sole diagnosis) as included in the DSM-III-R classification under Schizophrenic Disorder, Psychotic Disorders, Mood Disorder, Organic Mental Disorders or Delusional (paranoid) Disorders. Personality disorders shall be considered only when information and history depict that the individual exhibits persistent disability and significant impairment in major areas of community living.

Good internal controls dictate a central level review of the processing should be in place to ensure proper system edits and audits are in effect to be assured proper claim payments are made.

Recommendation

We recommend MMIS edits and audits related to TCM services be reevaluated and redesigned by DMS staff in order to prevent future improper payments. Also, the eligibility determination and redetermination process for case management services should be examined and redesigned in order to avoid current and future improper payments.

Management's Response and Corrective Action Plan

The Department for Medicaid Services (DMS) appreciates the due diligence by the auditors in bringing this issue to our attention. DMS reviewed the documentation related to the two (2) members that received benefits through the Behavioral Health Targeted Case Management (TCM) program and determined that the provider failed to document that the two met the diagnostic criteria for the program. In reviewing earlier documentation, it appears that one

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-61: The Department For Medicaid Services Does Not Have Adequate Controls In Place To Prevent Ineligible Members From Receiving Targeted Case Management Services (Continued)**

Management's Response and Corrective Action Plan (Continued)

member would likely have been eligible under program criteria had the appropriate documentation been provided; the other individual did not meet program criteria. DMS will draft a letter to the two (2) provider agencies responsible for the improper billing requesting they submit a plan of correction. Date of completion is 4/22/2013.

The MMIS edits and audits related to TCM services have been reevaluated and found to be working as designed; however, DMS has determined there is a need for further redesign of some of the edits and audits in order to improve provider coding and avoid similar issues in the future. DMS is working with MMIS staff to redesign the TCM program audits and edits to include ICD-9 diagnosis codes and age restrictions. DMS is confident these measures will decrease or eliminate such occurrences in the future. Projected date of completion is 4/22/2013.

During next and all future quarterly TCM provider training sessions DMS will ensure provider agencies receive in-depth training regarding the eligibility determination and redetermination process for case management services as defined in KAR1:515 and KAR1:525. Date of completion is 4/22/2013.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-62: The Department For Medicaid Services Is Not Sufficiently Monitoring Drug Rebates

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative
CFDA 93.775 - State Medicaid Fraud Control Units
CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)
CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Known Questioned Costs: \$ 0

The Kentucky Cabinet for Health and Family Services (CHFS) Department for Medicaid Services (DMS) is not sufficiently monitoring drug rebates. Pharmaceutical companies are not remitting their drug rebate payments to CHFS within the federally mandated time frame.

In a sample of ten pharmaceutical companies, two remitted payments had not been made at all and two remitted payments were made months after the allowable deadline. We also noted where two remitted payments were made two weeks after the deadline. These two were not deemed significant due to the possibility of a deposit in transit issue; however, these deposits did exceed the deadline. If the companies do not remit payment before the deadline, the companies are required to provide CHFS with a written explanation of their dispute with the invoice. A written explanation was not on file for any of the missing or significant late payments.

An oversight on the part of the pharmaceutical companies resulted in late payments. If payments are not made in a timely manner, and especially if payments are never made, the Commonwealth is not receiving funds to which they are entitled by law. If invoice disputes are not reported to the Commonwealth, accounts receivable balances could be overstated due to uncollectible amounts being reported as collectible by CHFS. This would distort the Cabinet's financial reports; compromising both internal decision making and external assessment.

The Social Security Act, Section 1927(b)(1)(A), A rebate agreement under this subsection shall require the manufacturer to provide, to each State plan approved under this title, a rebate for a rebate period in an amount specified in subsection (c) for covered outpatient drugs of the manufacturer dispensed after December 31, 1990, for which payment was made under the State plan for such period. Such rebate shall be paid by the manufacturer not later than 30 days after the date of receipt of the information described in paragraph (2) for the period involved, including such drugs dispensed to individuals enrolled with a medicaid managed care organization if the organization is responsible for coverage of such drugs.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-62: The Department For Medicaid Services Is Not Sufficiently Monitoring Drug Rebates (Continued)**

Recommendation

We recommend CHFS and their third party Pharmacy Benefits Administrator inform the pharmaceutical companies of the legal definition of rebate payment timeliness and the potential penalties for non-compliance.

Management's Response and Corrective Action Plan

The Department for Medicaid Services (DMS) agrees with the auditor's recommendation that CHFS and the third party Pharmacy Benefits Administrator (PBA) that pharmaceutical companies should be advised of the legal definition of rebate payment timeliness and the potential penalties for non-compliance. Accordingly, the PBA currently mails a cover letter along with the quarterly invoice to the Labeler (pharmaceutical company). The cover letter states that "The rebate is to be paid to the State within 38 days from receipt of the postmark indicated on the envelope to avoid interest charges". The Summary Page consists of the quarterly invoice list, in addition to the Current Quarter Balance, the Prior Period Balance due and the Interest Balance due. The quarterly invoice Summary Page also addresses the manufacturer's responsibility for calculating and paying interest on all outstanding balances not postmarked within 38 days from the invoice mailing postmark date. The PBA will continue to notify the labeler each quarter of the timeline and, if applicable, the prior period and interest balance due.

DMS will schedule quarterly conference calls with the PBA to discuss pharmacy compliance with rebate requirements and will work in conjunction with the PBA to effectively monitor and follow up on any outstanding drug rebate issues. Conference calls will be scheduled in May, August, November, and February.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-63: The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner

State Agency: Department for Medicaid Services

Federal Program: CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC- HAI) Prevention Initiative

CFDA 93.775 - State Medicaid Fraud Control Units

CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)

CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Known Questioned Costs: \$ 0

The Cabinet for Health and Family Services (CHFS), and relevant third parties, are not performing desk reviews on inpatient hospital and long-term care cost reports in a timely manner. Cost reports are completed by the hospital or long-term care facility or an accounting firm contracted by the hospital and long-term care facility and are vital to the settlement of funds between the facilities and the Department for Medicaid Services (DMS). The desk reviews of the cost reports include checking for mathematical accuracy and other procedures to determine the sufficiency of the settlement amount.

We tested a sample of 15 hospitals and 15 long term care facilities to ensure the cost reports were completed and desk reviews were performed as required. Our testing reflected the audits of all 15 hospital cost reports have not been completed, and the desk audits have not been performed on 7 of the 15 long term care facilities selected for testing.

In addition, cost reports are required to be submitted to DMS within five (5) months after the close of the hospital's fiscal year. DMS extended the cost report submission period for ten of the fifteen inpatient hospitals tested. The extension was given for an additional three months for all hospitals due to the Managed Care Organization (MCO) implementation. According to state regulation, a 30 day extension may be granted if a catastrophic circumstance exists, as determined by the Department (for example flood, fire, or other equivalent occurrence). The circumstances for submitting and extension surrounding the MCO implementation are not compatible with current state regulation.

DMS relies on the Centers for Medicare and Medicaid Services (CMS) to provide for the audits of the hospitals. Currently, these audits are being held by CMS pending review at the federal level. Until the audits are released, DMS will rely on unaudited cost reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-63: The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner (Continued)

If desk reviews are not performed on cost reports timely, improper provider accounting or practices could go unnoticed and if not corrected could lead to skewed reporting, poor service to members, or incorrect Medicaid settlement amounts between CHFS and the providers. While the MCO implementation was an arduous process for all involved, allowing providers an extension for non-catastrophic events - as provided for in the KAR - could set a precedent providers could use to request additional extensions. Given the current backlog of cost reports, further delays in cost report submission could worsen the situation.

42 CFR 455.253(g) Audit requirements states, "The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers."

907 KAR 10:015 Section 6(a)2 states: "A cost report shall be submitted within five (5) months after the close of the hospital's fiscal year."

907 KAR 10:015 Section 6(b)1&2 states:

- 1) The department shall grant an extension if an extension has been granted by Medicare. If an extension has been granted by Medicare, when the facility submits its cost report to Medicare, it shall simultaneously submit a copy of the cost report to the department.
- 2) If a catastrophic circumstance exists, as determined by the department (for example flood, fire, or other equivalent occurrence), the department shall grant a thirty (30) day extension.

Recommendation

We recommend CHFS, and relevant third parties, continue to diligently work through the backlog of cost reports with the goal of completely eliminating the backlog and perform desk reviews for Inpatient Hospital and Long-term Care Facilities in a timely manner.

We also recommend, if circumstances so warrant, that extensions granted to providers are in accordance with the definition in current State regulation.

Management's Response and Corrective Action Plan

Condition Clarifications:

- *The auditor noted in the Condition section that the Long-term Care cost reports completed are "vital to the settlement of funds between the facilities and the Department..." Long-term Care cost reports for Skilled Nursing Facility providers (14 of the 15 facilities selected in the LTC sample) are utilized for informational and analytical purposes for the year in review (2011 cost reports). These files do not include any settlement of funds between the cabinet and the providers and have no impact on Long-term Care reimbursement given the rates are established prices.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-63: The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner (Continued)**

Management's Response and Corrective Action Plan (Continued)

- *The auditor references the term "Inpatient" related to hospital cost reporting. The inpatient portion of the submitted cost report is reviewed for informational purposes only for Acute Care or Critical Access facilities, not reimbursement purposes only the "Outpatient" portion of the cost report is reviewed for reimbursement purpose.*
- *Of the 7 Long Term Care files noted as being open, 4 have been mailed*
- *Of the 15 Inpatient files noted as being open, 1 has been mailed.*

The auditor noted that DMS granted cost report extensions for 10 of the 15 sampled providers. DMS did not grant an extension for the Medicaid cost report or Medicaid supplemental schedule filing, which is regulated in 907 KAR 10:015. Rather, DMS granted an extension for the provider to file supplemental MCO schedules to be used by DMS for informational purposes only. Please note it requires the provider to submit the cost report timely, and allows an extension for the MCO schedules only.

Outpatient Hospital

The Department's outpatient reimbursement methodology was changed effective January 5, 2009. This change request was timely submitted to the Centers for Medicare and Medicaid Services (CMS); however, CMS approval was not granted until in October 2011. This two year period created a delay and subsequent backlog for the Department's processing.

The Department understands the regulation allows for an extension only for a catastrophic event or a Medicare granted extension. The Department did not grant providers an extension for filing Medicaid cost report or schedules; the Department granted an extension related to supplemental MCO schedules the Department had requested for informational purposes. Due to the implementation of managed care, providers were unable to obtain needed information from the MCOs in time to submit the data with their cost report filings. As a result, DMS allowed providers to submit their cost reports without such data and permitted providers to submit the additional information based on the extended timeframe. Therefore, the Department deemed it appropriate and reasonable to grant extensions related to these supplemental schedules. The Department believes the extension given for the supplemental informational schedules is appropriate and does [not] conflict with administrative regulation 907 KAR 10:015.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-63: The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner (Continued)**

Management's Response and Corrective Action Plan (Continued)*Long Term Care*

As noted above, long term care cost reports are reviewed for informational and analytical purposes for the 2011 cost reporting period. As noted in the administrative regulation, the rebasing year's cost reports are utilized for prospective rate setting. Also noted above, 4 files noted by the auditor as being open have been finalized and are considered closed.

One of the sampled long term care files is for an Intermediate Care Facility for Mental Retardation (ICF/MR). In order to process this file, a paid claims listing with a run date of at least 14 months after the provider fiscal year end is needed. Therefore, for the file selected (Wendell Foster), the needed paid claims listing became available in January of 2013. This file, along with other ICF/MR 2011 files, is in the review process and is consistent with timely processing based on the established procedures for this provider type.

With regard to Outpatient Hospital:

- Hospital fiscal year 2011 settlements will be completed and mailed within the next 4 months*
- The Department will continue to require hospitals to submit the Medicaid cost report and Medicaid supplemental schedules not impacted by MCO information to DMS within the regulation deadline.*

With regard to Long Term Care:

- The remaining 2011 skilled nursing facility cost report reviews will be completed and mailed by the end of March 2013.*
- The 2011 ICF/MR files are currently in the desk review process and anticipated to be completed by the end of May 2013.*

Auditor's Reply

The cost settlement implications noted in the finding were included by the auditor as an additional consequence of cost reports not being received timely. The potential impairments to the administration of the Medicaid program caused by the untimely receipt of cost reports, regardless of the provider type, is a liability. Even in cases where payment rates are determined independently of the cost reports, this information, as noted by DMS, is used for analytical and informational purposes.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-63: The Cabinet For Health And Family Services, And Relevant Third Parties, Are Not Performing Desk Reviews On Inpatient Hospital And Long-Term Care Cost Reports In A Timely Manner (Continued)**

Auditor's Reply (Continued)

DMS responded that five of the sample items have been mailed. Although this indicates the cost reports are proceeding through the desk review/audit process, the auditor did not consider them finalized based on reviewing tracking documentation maintained by DMS and inquiry during testing. In addition, the auditor was not made aware that DMS considered four of the files finalized and closed until the management response. Documentation provided to the auditor during the audit period indicated closure letters had not been sent to the LTC providers included in the finding.

Although DMS required providers to submit their cost reports within the legally acceptable timeframe, these submissions were incomplete. Given the importance and relevance of data related to claims adjudication between the providers and MCOs, these schedules are essential in assessing the status of managed care in Kentucky. If the issue was an inability on the part of the MCOs to supply information timely, as indicated in DMS's response, the threat of establishing a harmful precedent for reporting extensions still applies.

We do appreciate DMS providing clarification regarding the utilization of long-term care cost reports. In future audit periods, we will take into account the varying reporting periods for provider types such as ICF/MR. The auditor was not made aware of this distinction during the audit despite inquiring about missing or late cost reports.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-64: The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting

State Agency: Office of the Secretary; Office of Policy and Budget

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.714 - ARRA- Emergency Contingency Fund for Temporary Assistance for
Needy Families (TANF) State Program
CFDA 93.563 - Child Support Enforcement
CFDA 93.568 - Low-Income Home Energy Assistance
CFDA 93.575 - Child Care and Development Block Grant
CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and
Development Fund
CFDA 93.658 - Foster Care - Title IV-E
CFDA 93.659 - Adoption Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Known Questioned Costs: \$ 0

During the FY 2012 audit of the Cabinet for Health and Family Services (CHFS), the reporting of sub-awards for the Federal Funding Accountability and Transparency Act (FFATA) was reviewed to determine compliance with federal regulations and CHFS internal controls over the reporting requirement. CHFS is required to report any sub-award granted greater than \$25,000. The list of sub-awards granted by CHFS as of June 2012 was reviewed to ensure all applicable sub-awards were accurately and timely reported to the FFATA Sub-award Reporting System (FSRS). FSRS is the reporting tool to capture and report sub-award and executive compensation data regarding their first-tier sub-awards to meet the FFATA reporting requirements. The sub-award information entered into FSRS will then be displayed on www.USASpending.gov (USA Spending) that is then available to the public.

On a quarterly basis, each department at CHFS submits an excel spreadsheet documenting the sub-awards that should be reported to the CHFS Policy Advisor in charge of FFATA reporting. During our review we noted the following:

- The Policy Advisor uploads the data into FSRS without proper supporting documentation to verify the sub-awards are complete and accurate.
- One hundred eight contracts for Child Support Enforcement were reported twice in FSRS and USA Spending. These contracts were originally reported in November 2011 under one Federal Award Identifier Number (FAIN) and were reported again in January 2012 under a separate FAIN.
- Of the Child Support Enforcement contracts that were reported twice, nine (9) of the subrecipients did not correspond to the correct award amount.
- After January 2012, CHFS had not reported award modifications for Child Support Enforcement in FSRS, but records show 12 modifications to the awards had been made.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-64: The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting (Continued)

- One reported contract could not be located in the state accounting system (eMARS)
- One contract amount in eMARS does not agree to CHFS list of sub-awards as of June 2012 nor does it agree to what was reported in USA Spending.
- Three awards were not submitted timely in FSRs.

CHFS does not have a proper tracking system in place to verify the sub-awards that should be reported for FFATA. The CHFS Policy Advisor in charge of FFATA reporting relies solely on the information provided from each department without supporting documentation or a means of verification. A lack of a tracking system creates the possibility of under-reporting, over-reporting and late reporting.

2 CFR Part 170 - Reporting Sub-awards and Executive Compensation Information

Appendix A to Part 170—Award term

I. Reporting Sub-awards and Executive Compensation.

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a sub-award to an entity (see definitions in paragraph e. of this award term).
2. *Where and when to report.*
 - i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.
 - ii. For sub-award information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

Good internal controls dictate the underlying accounting records are the basis for FFATA reporting.

OMB Circular A-133 Compliance Supplement Part 3 states the reporting must be accomplished by the end of the month following the month in which the reportable action occurred.

Recommendation

We recommend CHFS:

- Develop internal control procedures to ensure accurate and reliable information is reported into the FSRs;
- Implement a tracking system to verify grant sub-award information that is subject to FFATA Reporting; and
- Ensure FFATA reporting is completed on a monthly basis to comply with reporting requirements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-64: The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting (Continued)**

Management's Response and Corrective Action Plan

CHFS agrees with the recommendations and will develop internal control procedures to verify that accurate, reliable and complete sub-award information is reported on a timely basis, to include monthly analysis and reporting to FSRS as required.

Because of the nature of the information being reported, contract amounts shown in eMARS may differ widely from sub-award amounts properly recorded for a single Federal Award Identification Number (FAIN or grant award number). FFATA is established to report sub-award ("contract") amounts by FAIN, which may include multiple CFDA numbers and extend for varying lengths of time and with varying calendar years that rarely match the state fiscal reporting year for expenditures. Further, there may be significant differences between state contract timeframes and federal grant award timeframes, in addition to unusual federal operating methods for certain grant awards such as multiple open grant award years and multiple FAINs for a single federal grant program,

CHFS recognizes that the ideal source of the reporting information is through direct extraction from the accounting records (eMARS). Due to the wide variation and complexity in grant award timeframes, a reliable source of Cabinet-wide FAIN activity through eMARS has not previously existed, necessitating manual spreadsheets prepared at each Department-level budget office. While not only labor intensive, the process created opportunity for data entry error in report preparation.

CHFS has recently achieved some success with centralized data extraction methods, which has improved the reporting quality. Beginning with January 2013 FFATA reports, the Policy Advisor and Department budget contacts have changed the report preparation procedures to include input from a centralized extraction method, although manual spreadsheets are still required for some grant programs. This development provides a point of reconciliation for manual calculations. An improved tracking system will be initiated by the Policy Advisor. USA Spending reports will also be more thoroughly reviewed to identify potential data errors. The Policy Advisor will continue to collaborate with Department level budget personnel to align procedures, with further revisions completed by June 30, 2013.

State fiscal year 2012 marked the first year that most CHFS grants became reportable under FFATA and there has been a period of transition as procedures were being developed. The FFATA Sub-award Reporting System (FSRS) has experienced many problems, including a lack of instruction at a detailed level necessary to ensure proper and consistent reporting.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-64: The Cabinet For Health And Family Services Does Not Have Adequate Procedures In Place For Transparency Reporting (Continued)**

Management's Response and Corrective Action Plan (Continued)

Regarding the observations noted above, the following information is provided:

Lack of supporting documentation: *As the FFATA procedures are improved, special attention will be given to the incorporation of data checks to ensure completeness and accuracy of all sub-awards prior to entering FSRS.*

Child Support Enforcement (CSE) 108 contracts reported twice: *This double reporting was the result of an isolated incident involving the change in FAIN by the awarding agency. This situation has not occurred with any other CHFS grant award. Initially, the CSE grant appeared in FSRS under FAIN 1204KY4004. In the following quarter, FAIN number 1204KY4004 was removed from the FSRS database and was replaced by FAIN number 1204KY4005. CHFS then re-filed CSE contract amounts under the replacement FAIN. Reporters such as CHFS do not have the authority to delete electronic reports they have previously filed but may reopen and adjust reports to show a zero balance. CHFS has attempted but cannot change 1204KY4004 because the FAIN has been deleted by the awarding agency. CHFS has requested that the Federal Service Desk remove the report to eliminate the sub-award overstatement, but as of this writing, no action has been taken.*

Twelve modifications made to CSE awards were not reported – *CHFS records indicate an attempt to report updated contract amounts, including the final SFY 12 contract modifications, for 1204KY4005. However, recent changes to the FSRS system caused 32 Child Support Enforcement contract Data Universal Numbering System (DUNS) identifiers to be rejected from the attempted report (documentation provided). An updated report, still missing the majority of the 32 contractors, was filed in August 2012. FSRS reports have now been updated to incorporate the final contract modifications for all contractors currently available in FSRS.*

Nine of the CSE subrecipients did not correspond to the correct award amount – *These nine (9) errors are the result of a single incident of data entry error (sorting issues within source and destination documents caused mismatched DUNS number identification). CSE sub-awards have now been corrected in FSRS.*

Contract amount per eMARS does not agree to reported sub-awards or USA Spending – *This error involves one subrecipient and is unexplained. The source of the error continues to be investigated. Sub-award amounts have been corrected in FSRS.*

One reported contract could not be located in eMARS – *In this case, a wrong contract number for Eastern Kentucky University was manually entered into the FFATA spreadsheet. This CSE sub-award contract number has been corrected in FSRS.*

Three awards were not submitted timely in FSRS: *In these cases, the initial reporting was completed within the required timeframe. The late dates appearing in USA Spending correspond to most recent activity dates, when reports were opened for corrections and resubmitted.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-65: The Cabinet For Health And Family Services Failed To Report Medicaid And KCHIP Sub-awards For Transparency Reporting Purposes

State Agency: Office of the Secretary; Office of Policy and Budget

Federal Program: CFDA 93.767 - Children's Health Insurance Program

CFDA 93.720 - ARRA- Survey and Certification Ambulatory Surgical Center
Healthcare-Associated Infection (ASC- HAI) Prevention Initiative

CFDA 93.775 - State Medicaid Fraud Control Units

CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
(Title XVIII) Medicare

CFDA 93.778 -Medical Assistance Program (Medicaid; Title XIX)

CFDA 93.778 - ARRA-Medical Assistance Program (Medicaid; Title XIX)

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Known Questioned Costs: \$ 0

During the FY 2012 audit of the Cabinet for Health and Family Services (CHFS), the reporting of sub-awards for the Federal Funding Accountability and Transparency Act (FFATA) was reviewed for compliance with federal regulations and CHFS controls over the reporting requirement. FFATA is intended to provide more transparency into government spending and is made available to the public on a single, searchable website. FSRS is the reporting tool Federal prime awardees, such as CHFS, use to capture and report sub-award and executive compensation data regarding their first-tier sub-awards to meet the FFATA reporting requirements. The sub-award information entered into FSRS will then be displayed on www.USASpending.gov that is then available to the public.

During our review, we found that CHFS has not reported sub-awards granted for Medicaid or Kentucky Children's Health Insurance Program (KCHIP). CHFS improperly determined these subrecipients as vendors for the purposes of FFATA reporting; therefore, they failed to report them to the FFATA Sub-award Reporting System (FSRS).

CHFS personnel performing the FFATA reporting did not properly classify the contracts awarded under the federal programs as subrecipients. These sub-awards were properly identified as subrecipients in the Schedule of Expenditures of Federal Awards, Schedule of Subrecipients. A lack of communication among departments and a lack of training on vendor/subrecipient relationships allows for inconsistencies and noncompliance related to FFATA reporting.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-65: The Cabinet For Health And Family Services Failed To Report Medicaid And KCHIP Sub-awards For Transparency Reporting Purposes (Continued)

2 CFR Part 170 - Requirements for Federal Funding Accountability and Transparency Act Implementation

Appendix A to Part 170—Award term

I. Reporting Sub-awards and Executive Compensation.

a. Reporting of first-tier sub-awards.

1. Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a sub-award to an entity (see definitions in paragraph e. of this award term).

2. Where and when to report.

i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

ii. For sub-award information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

3. What to report. You must report the information about each obligating action that the submission instructions posted at <http://www.fsrs.gov> specify.

4. Subrecipient means an entity that:

i. Receives a sub-award from you (the recipient) under this award; and

ii. Is accountable to you for the use of the Federal funds provided by the sub-award.

Recommendation

We recommend CHFS:

- Ensure each Department at CHFS with applicable federal programs is knowledgeable with FFATA reporting requirements
- Inform necessary personnel how to properly classify subrecipients and vendors.
- Immediately begin FFATA reporting for Medicaid and KCHIP, and take the necessary steps to correct the failure to report in prior periods.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-65: The Cabinet For Health And Family Services Failed To Report Medicaid And KCHIP Sub-awards For Transparency Reporting Purposes (Continued)**

Management's Response and Corrective Action Plan

CHFS agrees with the recommendations. The Policy Advisor, in collaboration with Department level budget personnel, will develop internal control procedures to address accurate, reliable, complete and timely reporting of sub-award information for purposes of FFATA. Procedures related to FFATA reporting will include the subrecipient criteria listed above, which will be distributed to all necessary personnel responsible for classifying subrecipients and vendors. Transparency reports for identified Medicaid and KCHIP subrecipients related to the current fiscal year and any prior periods will be filed as soon as possible.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-66: The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program

State Agency: Department for Community Based Service

Federal Program: CFDA 10.551 - Supplement Nutrition Assistance Program

CFDA 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

CFDA 10.561 - ARRA- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Known Questioned Costs: \$ 0

The Cabinet for Health and Family Services (CHFS) is not maintaining adequate security over Electronic Benefit Transfer (EBT) cards utilized by Supplemental Nutrition Assistance Program (SNAP). The EBT cards are used to purchase food at authorized retail stores for eligible SNAP members. The EBT cards that are not mailed to the eligible member are maintained at the local Department for Community Based Service (DCBS) offices. It is the responsibility of CHFS and DCBS to maintain adequate security over, and documentation/records for, these EBT cards to prevent theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation or improper use.

In fiscal year 2012, we tested compliance with the EBT card security in thirteen DCBS offices to ensure proper security was maintained, proper issuance was performed, periodic balancing of EBT cards was completed, and proper destruction was performed. Each county tested had inadequate EBT security and were not following proper procedures implemented by DBCS. We noted the following exceptions:

- Five out of 13 counties failed to properly secure EBT cards by ensuring the cards were stored in a secure area and/or proper documentation was completed.
- Five out of 13 counties failed to maintain proper records of issuance.
- Thirteen out of 13 counties failed to perform controls procedures monthly to confirm the count of cards remaining in the office.
- Seven out of 13 counties failed to properly destroy EBT cards by ensuring the cards were destroyed timely and/or proper documentation was completed and maintained.

This has been an ongoing problem since 2006.

Improper procedures are being followed in handling EBT cards. Management and staff members are not aware of correct procedures or the policies are not being enforced by DCBS. The documented policies at DCBS may be written appropriately, but without training or enforcement, the policy is ineffective. Without proper procedures being performed, there is a risk the EBT cards could be stolen, misplaced, and improperly used.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-66: The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

7 CFR section 274.5(c) states:

- (1) EBT cards shall be considered accountable documents. The State agency shall provide the following minimum security and control procedures for these documents: (i) Secure storage; (ii) Access limited to authorized personnel; (iii) Bulk inventory control records; (iv) Subsequent control records maintained through the point of issuance or use; and (v) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records.

The DCBS Operation Manual MS 0290 states:

The recipient has 30 days to pick up their EBT card in the local office. If they fail to pick up their EBT card within 30 days, the card must be destroyed. If the recipient comes into the local office to pick up their card after the card has been destroyed, request another card.

When EBT cards are received in the local office and the envelope has been opened, or are returned for any reason; the EBT card is logged onto form EBT-5, Affidavit of Destruction, and immediately destroyed.

To maintain the security of EBT cards in the local office:

A. The Field Services Supervisor (FSS):

1. Maintains overall responsibility for secure storage of EBT cards and logs;
2. Designates two individuals (Employee A and Employee B mentioned below) to handle, secure, issue, destroy and complete logs for EBT cards;
3. Ensures EBT cards are NEVER left unsecured;
4. Routinely inspects the secure storage area;
5. Destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged, or not picked up within 30 days;
6. Signs form EBT-5 at the time of destruction; and
7. Reviews and signs forms EBT-2, County EBT Card Log, and EBT-5 monthly to confirm the EBT cards remaining in the local office at the end of each month.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-66: The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

B. Employee A:

1. Has responsibility for receiving and securing EBT cards;
2. Ensures that the EBT cards are logged on form EBT-2 as received;
3. Obtains a card from the secure location and releases the card to Employee B at the time a recipient comes in to pick up the EBT card; MS 0290 (2)
4. Records the release of each EBT card to Employee B on form EBT-2 daily; and
5. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

C. Employee B:

1. Has responsibility for releasing EBT cards to recipients;
2. Obtains the appropriate EBT card from Employee A as recipients come in to the local office to pick up their card;
3. Views one form of identification from the recipient picking up the card and documents the verification on form EBT-2;]
4. Requires the recipient to sign, not initial, form EBT-2 to confirm receipt of the EBT card in a manner which preserves the confidentiality of others listed on form EBT-2;
5. Signs form EBT-2 to indicate that the recipient's EBT card was released; and
6. Attests to a daily reconciliation of EBT cards through comparison of EBT-2 and EBT-5 logs to cards remaining in the secure location.

D. Either Employee A or B and the FSS destroys or witnesses the destruction of EBT cards as they are returned to the local office, received damaged or not picked up within 30 days and signs form EBT-5 at the time of destruction.**E. Ensure that the following action is taken at the end of each month:**

1. Both Employees A and B sign forms EBT-2 and EBT-5;
2. The FSS reviews and signs form EBT-2, comparing the list of outstanding cards to the cards remaining in the secure location; and
3. Retain forms EBT-2 and EBT-5 in a county file.

Disciplinary action is initiated with the FSS and/or the designated employee, if procedures to secure and distribute cards are not followed which results in a loss of cards.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-66: The Cabinet For Health And Family Services Failed To Maintain Adequate Security For Electronic Benefit Transfer Cards For The Supplemental Nutrition Assistance Program (Continued)**

Recommendation

We recommend DCBS:

- Provide continuous training to county office personnel to effectively communicate all DCBS policies and procedures regarding EBT card security to ensure proper handling, issuances, and destruction of EBT cards - including the segregation of duties with receiving and issuing cards, timely destruction of cards, and the utilization of most current revisions of forms EBT-2 and EBT-5.
- Evaluate current policies for appropriateness, update policies if necessary, and enforce the application of policies.

Management's Response and Corrective Action Plan

The Division of Family Support (DFS) has reviewed current EBT security policy and has made the determination that policy is clear and concise and no changes are needed at this time. To reemphasize to field staff the importance of enforcing EBT security, DFS will issue a Family Support Memorandum (FSM) restating policy and reinforcing the importance of staff following proper policies and procedures. This FSM will be issued no later than April 15, 2013. The Division of Service Regions, which has the responsibility of overseeing regional and field staff, will discuss this issue at the next Service Region Administrators' meeting to be held March 12, 2013 and send the FSM to the Service Region Administrator Associates to bring the seriousness of the issue to the attention of upper regional management.

Included in the FSM will be instruction to field staff regarding additional monitoring of the EBT security process. A report is currently generated to identify cards sent to the local office. Each month, every local office will submit the completed EBT-2 and EBT-5 logs to their Regional Office. Each of the nine Regional Offices will submit these logs to the Nutrition Assistance Branch within DFS. As an additional level of review, the logs will then be cross checked with the report to ensure policy and procedures have been followed and that correct action is taken with the card. If there are discrepancies identified during the review, contact will be made with the local office for corrective action. This process will begin in May 2013.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-CHFS-67: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program

State Agency: Department for Community Based Services

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.714 - ARRA- Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Known Questioned Costs: \$ 0

During the FY 2012 audit of the Cabinet for Health and Family Services (CHFS), we tested member eligibility for the Temporary Assistance for Needy Families' (TANF) program. The TANF program includes the following Federal assistance programs: Kentucky Transitional Assistance Program (K-TAP), Kentucky Works Program (KWP), Kinship Care Program (KC), Family Alternatives Diversion (FAD), Work Incentive Program, and Safety Net. CHFS Department for Community Based Services (DCBS) determines eligibility for these programs.

To ensure compliance of eligibility for the TANF program was sufficiently performed, we reviewed 110 case files in thirteen counties. During our testing, we noted CHFS was not in compliance with Federal regulations regarding member eligibility. Proper documentation was not maintained at the local DCBS offices and/or Electronic Case File (ECF) system; thus, no assurance can be achieved as to the adherence to proper eligibility determination procedures by DCBS personnel. We noted the following exceptions:

- K-TAP - We tested 31 case files and noted five exceptions related to insufficient documentation (three exceptions in Jefferson County, one exception in Warren County, and one exception in Butler County).
- KWP - We tested 30 case files and noted two exceptions related to insufficient documentation (one exception in Jefferson County and one exception in Warren County).
- KC - We tested 30 case files and noted four exceptions related to insufficient documentation (two exceptions in Fayette County, one exception in Christian County, and one exception in Warren County).
- FAD - We tested 19 case files and noted eight exceptions related to insufficient documentation (seven exceptions in Jefferson County and one exception in Fayette County).

Inadequate case documentation and improper eligibility determination procedures lead to an increased risk that benefits are being issued to ineligible recipients.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-67: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

If DCBS does not maintain adequate case file documentation, it cannot be determined if the recipients were eligible to receive benefit payments in accordance with Federal regulations. When case file documentation is missing there is an increased risk that errors or fraud may have occurred and would not be promptly detected or corrected by the agency's control system. The risk for fraud within these programs is significant because eligible recipients can receive cash assistance.

In addition to the increased risk of fraud within the program, there is also the concern that recipients could get additional benefits that they are no longer eligible to receive. When case file documentation is missing, there is a risk that individuals could reapply for benefits either before the required twenty four (24) month waiting period expires or apply for benefits more than twice in the beneficiary's lifetime.

OMB Circular A-133 Part 6 states, "The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., agency management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements."

According to the CHFS, DCBS Operations Manual - Volume I:

The case record is the official document of the Department that establishes accountability for the expenditure of state and federal funds. Local management staff is responsible for insuring case records are properly maintained, purged of obsolete material, and accessible to staff. MS 0030

Case records are required to be retained for a length of time specified by each program. Material not directly related to eligibility or benefit authorization is not retained. To assure records contain only relevant material, case records are purged of all outdated material during the recertification process. Purged material is shredded or burned prior to disposal. MS 0040

TANF has a required record retention of 5 years.

"DO NOTE PURGE a case record if the case is involved in an audit until the audit is completed and a response to the audit has been filed." MS 0040

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-67: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

Recommendation

We recommend CHFS DCBS properly train staff to ensure eligibility determinations for TANF members are verified by adequate supporting documentation. Furthermore, DCBS offices shall maintain appropriate documentation to support member eligibility determinations in accordance with Federal regulations.

Management's Response and Corrective Action Plan

DCBS works on a continual basis to identify and implement solutions to assure and improve management of cases, including case documentation. Effective June 2012, Kentucky's Electronic Case File (ECF) management system became operational statewide. ECF is a paperless system that permits workers to scan documents at their desks and attach the scanned documents to an electronic case file. Once the electronic case file is originated and documents are attached, the possibility of a total loss of files is virtually eliminated. As the state moved forward with the phased roll out of the system, certain issues were brought to light that hindered implementation in certain areas. For example, Jefferson County did not have the appropriate bandwidth to handle the volume of documents to be scanned and attached into ECF. This created a backlog of documents to be scanned and attached in the system until the issue was corrected. The issue has been resolved as of this date and Jefferson County has been working to have all documents scanned and attached to the appropriate case file.

Having ECF operational statewide has provided the Department of Community Based Services (DCBS) the opportunity to reevaluate current practices and procedures within field offices in terms of how resources are managed. Additionally, rising caseloads and the future implementation of the Kentucky Health Benefit Exchange has necessitated a need for change in how cases are processed and how work is allocated among field staff. As a result, DCBS has initiated and is piloting a business process redesign project. Under this business process redesign, office resources are organized based on function and activities rather than a 1:1 case worker to client model.

Through the business redesign project, field staff is organized into four groups: client intake; call services; eligibility and enrollment; and support services. Each group performs a defined set of functions. For example, eligibility and enrollment teams conduct application and recertification interviews, while support services teams are responsible for processing pending applications and re-certifications upon receipt of verification documentation and will also process any changes made to a case. Under this model, no one worker is responsible for all actions on a case. Many workers are responsible for processing and maintaining a case, establishing an informal review process. Each time a worker touches a case, the case must be reviewed to ensure the last action was worked correctly and the necessary documentation is present. Additionally, for this model to be successful, scanning and attaching documentation is essential, as the documentation drives many of the functions to be performed.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-CHFS-67: The Department For Community Based Services Local Offices Did Not Maintain Case File Documentation Required To Determine Eligibility For The Temporary Assistance For Needy Families Program (Continued)**

Management's Response and Corrective Action Plan (Continued)

In addition to the informal review process created through the business process redesign, DCBS has a formal Quality Control (QC) process, performed by the DCBS Division of Program Performance, to review K-TAP, KC, and KWP cases. Using a random sample, cases are reviewed to ensure eligibility was appropriately determined and all documentation is contained in the case record. This includes proper documentation for KWP functions such as payments, sanctions, etc. Field staff is required to follow-up and correct any cases found in error.

To reinforce the importance of maintaining proper case files, the Division of Service Regions is addressing this issue in the next Service Region Administrators' meeting to be held March 12, 2013. Additionally, the Division of Family Support (DFS) will place a news message on the Kentucky Automated Management Eligibility System (KAMES) regarding the importance of maintaining proper case files. KAMES is the automated system field staff use to conduct eligibility determination for benefits. Placing news messages on KAMES is a tool used to communicate reminders and important information to field staff as the messages must be reviewed the first time a user logs on each day. This will be completed by April 1, 2013. As recommended, DFS will also meet with training staff to strategize ways in which the importance of maintaining proper case files can be emphasized when conducting program training. This meeting will take place prior to May 1, 2013.

Effective April 1, 2013, a moratorium will be placed on applications for the Kinship Care (KC) program. Over time, this will reduce the KC caseload. The only documentation needed ongoing for currently active cases will be original documentation used to determine initial eligibility and any documentation necessary for recertification.

Missing case documentation is a significant concern to DCBS. In addition to the actions to be taken above, a review of the actual cases with findings has been conducted by DCBS staff. DCBS will continue to work with its field offices to ensure all required and mandatory documentation is included in the appropriate case files.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-DMA-68: The Department Of Military Affairs Division of Emergency Management Failed To Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program

State Agency: Department of Homeland Security

Federal Program: CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Known Questioned Costs: \$ 59,986

During our audit of the Kentucky Department of Military Affairs (DMA), we tested personnel expenditures of the Kentucky Division of Emergency Management (KYDEM) Chemical Stockpile Emergency Preparedness Program (CSEPP), and found the following items:

Salary Charged To An Improper CSEPP Benchmark

During our review, we noted salary and fringe benefit expense applied to the Automated Data Processing System (ADP), Administration (ADM), and Personnel (PER). According to the CSEPP Cooperative Agreement, allowable costs under the PER benchmark are “Salaries and benefits for CSEPP funded positions with approved work plans up until the end of the performance period”. The PER benchmark goes on to define one exception: “Salaries and benefits directly associated with the medical program are to be reported in the Medical Benchmark. Specifically, we noted the following:

A total of \$1,192 billed to the ADP benchmark of grant year CSP09 consisting of:

- \$1,192 for the WEB EOC Admin

A total of \$36,386 billed to the ADM benchmark of grant year CSP10 consisting of:

- \$19,768 for the System Integration Manager
- \$9,052 for the KYDEM & CSEPP Exercise Coordinator
- \$7,566 for the Project Manager

A total of \$22,408 billed to the ADM benchmark for the grant year CSP11 consisting of:

- \$8,437 for the Sub-Recipient Monitoring/Internal Control Program
- \$13,971 for the Project Manager

The ADP and ADM benchmarks do mention “contracts” related to the goals of the benchmark. The ADM benchmark specifically mentions contracted personnel. The salary and benefits KYDEM is charging to these benchmarks are not contracted employees; they are regular salaried employees of KYDEM. These expenditures are unallowable in the ADP and ADM benchmarks.

Net Increase of FTEs

The CSEPP Cooperative Agreement refers to FTE, which stands for Full Time Equivalent. This acronym is used as a measurement of full time employees dedicated to the grant. It is possible to have an employee that is a partial FTE. KYDEM is capped for CSEPP at 13.75 FTE. We found that in addition to these 13.75 FTEs KYDEM is also billing the partial salary of 3 additional employees. The PER benchmark explicitly states that “Additional CSEPP FTEs” are unallowable.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-68: The Department Of Military Affairs Division of Emergency Management Failed To Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program (Continued)**

KYDEM provided us an email dated February 14, 2013 from the CSEPP Section Chief of the U.S. Department of Homeland Security. KYDEM provided this email, which they obtained only after we questioned these expenditures, as justification for violating the Cooperative Agreement as we noted above. KYDEM did not follow through and amend the CSEPP Cooperative Agreement to allow the activities we noted above. An email from a U.S. Department of Homeland Security does not replace the requirements of the CSEPP Cooperative Agreement.

Even though this email does not amend the requirements of the Cooperative Agreement, we should note that KYDEM still did not follow the permission sought in this email from the CSEPP Section Chief. This email states in part "CSEPP time limited personnel to be paid from the Admin benchmark as it is FEMA's interpretation of additional staff hired by KYEM as short term contractual rather than long term, Full Time Employees FTE." KYDEM charged salary and benefits costs for the Web EOC Admin to the ADP benchmark and costs for the KYDEM & CSEPP Exercise Coordinator to the ADM benchmark. Both these employees are part of the 13.75 FTE and are not time limited personnel as defined in the email. The email goes on to state in part, "I understand that KYEM hired the questioned employees under that authority as non P1 (non-merit) employees whose services will be discontinued as tasks are completed. This has been a standard practice within CSEPP and those employees would not count towards the FTE authorizations in place in Kentucky." KYDEM also did not follow this part of the email. The Sub-Recipient Monitoring/Internal Control Program employee is one of the positions in excess of the 13.75 FTE cap. This employee works on sub-recipient monitoring for multiple grants including CSEPP. Sub-recipient monitoring is not a short-term project. Sub-recipient monitoring is ongoing for the life of the program and should be handled inside the 13.75 FTE. Also, most all CSEPP FTE employees are non P1 (non-merit).

An ineffective internal control structure does not ensure federal dollars are spent in accordance with cooperative agreements and Federal Law.

Based on the allowable benchmarks established by FEMA, Kentucky Division of Emergency Management (KYDEM) has received reimbursement for expenditures from the unallowable benchmarks resulting in \$59,986 in questioned costs.

Fiscal Year 2011 Chemical Stockpile Emergency Preparedness Program (CSEPP) Cooperative Agreement Guidance August - 2010; Part IV. Application and Submission Information; E. Funding Restrictions; PER Benchmark Allowable Costs states in part:

"Salaries and fringe benefits for full and part-time State or Tribal and local government employees covered by a State or Tribal Government or local merit plan.

Exception: Salaries and benefits directly associated with the medical program are to be reported in the Medical Benchmark."

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-68: The Department Of Military Affairs Division of Emergency Management Failed To Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program (Continued)**

Recommendation

We make the following recommendations:

- KYDEM should seek to amend the CSEPP Cooperative Agreement to state the activities they discussed with the CSEPP Section Chief of the U.S. Department of Homeland Security are allowable.
- KYDEM should review their control structure and processes to ensure only eligible benchmarks are being billed.
- KYDEM should work sub-recipient monitoring tasks inside the FTE cap since that is part of the long-term life of the grant.

Management's Response and Corrective Action Plan

Kentucky Emergency Management (KYEM) does not concur with the Finding that ineligible expenses were being reimbursed. KYEM has implemented controls (policies, procedures, and training) to ensure only eligible expenditures are reimbursed, and from the appropriate benchmark.

In direct response to this recommendation;

- *KYEM has requested documentation from the CSEPP Section Chief of the U.S. Department of Homeland Security that the activities were allowable.*
- *KYEM has and will continue to review their control structure and processes to ensure only eligible benchmarks are being billed.*
- *As this time, KYEM does not agree that the sub-recipient monitoring tasks should be worked into the FTE cap.*

Auditor's Reply

In management's response KYEM disagreed with the Auditor's determination of allowable personnel expenses. Auditors requested official documentation from FEMA indicating these personnel expense benchmarks were allowable expenses. Auditors did not receive the requested documentation from KYEM to substantiate these personnel expenses from KYEM. Furthermore, KYEM has a signed contract with FEMA stating these personnel expenses are not eligible.

KYEM's signed contract with FEMA states unallowable costs include additional CSEPP FTEs. KYEM is not allowed to exceed the FTE cap. The signed contract states adjustments within approved positions are allowable, as long as there is no net FTE increase. The additional staff using CSEPP funds to pay part of their salary causes KYEM to exceed the maximum FTEs allowable.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-69: The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Federal Reports For The Chemical Stockpile Emergency Preparedness Program And Pre-Disaster Mitigation Program Are Based On eMARS, The State's Accounting System**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.040 - Chemical Stockpile Emergency Preparedness Program
CFDA 97.047 – Pre Disaster Mitigation

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management and Reporting

Amount of Known Questioned Costs: \$ 0

During our audit of the Department of Military Affairs (DMA), we determined DMA-KY Division of Emergency Management (KYDEM) didn't correctly report expenditures on the SF-425 Federal Financial Reports for Pre-Disaster Mitigation Congressional 09 (PDMC-09) and the Chemical Stockpile Emergency Preparedness Program (CSEPP).

PDMC-09

We examined the SF-425 reports and eMARS records for the time period 3/31/2010 through 6/30/2012. Our work revealed quarterly totals, which are cumulative reported on the SF-425 reports, did not agree to expenditure totals in eMARS, the state's accounting system. Furthermore, DMA's Administrative Branch Manager relies on eMARS as the basis for determining how much reimbursement money to draw down from the federal government. Erroneous reporting of expenditures on the SF-425 reports brought on a 27 month delay in drawing down federally reimbursable funds to the state.

We noted the following:

- The first two quarters we reviewed, 3/31/2010 & 6/30/2010, had eMARS expenditures of \$924,547 but \$0 dollars reported on the SF-425 for both quarters.
- Cumulative expenditures reported on the SF-425 for 6/30/2011 & 9/30/2011 were less than cumulative expenditures reported on the 3/31/2011 report.
- A draw down of federally reimbursable expenditures did not occur until the 6/30/2012.

CSEPP

KYDEM provided the SF-425 reports they submitted for four CSEPP grant years, CSP09, CSP10, CSP11, CSP12, that were submitted during FY12. These reports are submitted quarterly and we began by trying to agree the 6/30/12 SF-425 reports to the expenditures in eMARS.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-69: The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Federal Reports For The Chemical Stockpile Emergency Preparedness Program And Pre-Disaster Mitigation Program Are Based On eMARS, The State's Accounting System (Continued)**

As we tried to reconcile these SF-425 reports to eMARS, we noted the following:

- The June 30, 2012 SF-425 reports submitted for CSP09, CSP10, CSP11, and CSP12 grant years each reported more expenditures than were recorded in eMARS.
- The Chief Administrative Officer at DMA performed a reconciliation of grant year CSP09 and difference between eMARS and the SF-425 matched the difference we found.
- The KYDEM employee that was submitting these reports during FY 12 had left KYDEM before we began our audit. That employee contacted us and provided us with the report for grant year CSP11 that they used to reconcile these reports to eMARS. This report was within \$7,331 of our report for CSP11.
- For the four grant years combined, we are able to confirm that eMARS expenditures are less by at least \$973,000 compared to the expenditures reported on the SF-425.
- KYDEM uses a network of spreadsheets to determine the cumulative expenditures reported on the SF-425 reports.
- On the eMARS report, we noted there were expenditures related to CSP08 during FY 12, but we were not provided any SF-425 reports that were submitted during FY 12 for this grant year.

We are not able to determine if eMARS is correct and KYDEM is reporting inflated expenditures on the SF-425 or if the SF-425 reports are correct and there are expenditures not recorded in eMARS.

If it is true that there are expenditures not recorded in eMARS, it indicates a complete breakdown of internal controls. DMA is not able to draw reimbursement for transactions that are not recorded in eMARS. It also raises the question how checks were issued without a record in eMARS.

Also, if KYDEM is reporting inflated expenditures on the SF-425, then that could cause grants to be closed prematurely because FEMA would believe that all available funds in the grant had been spent when they had not.

Since eMARS is the official record of the state of Kentucky, KYDEM did not correctly report amounts in the state's accounting system, eMARS, to the SF-425 Federal Financial Report correctly. Only amounts reported in eMARS are to be reported on the SF-425 reports.

Failure to correctly report all expenditures in eMARS leads to inaccurate reporting of cumulative expenditures on the SF-425 report. Also, this failure causes DMA to not be able to draw down federally reimbursable funds in a timely manner.

eMARS, the states accounting system and official system of record at a minimum should be the starting basis for reporting.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-DMA-69: The Department Of Military Affairs Division Of Emergency Management Failed To Ensure Federal Reports For The Chemical Stockpile Emergency Preparedness Program And Pre-Disaster Mitigation Program Are Based On eMARS, The State's Accounting System (Continued)

Recommendation

We recommend the Department of Military Affairs-Kentucky Division of Emergency Management at a minimum:

- Utilize eMARS, the state's official accounting system, as the basis for reporting.
- Ensure all amounts reported on SF-425 reports agree to eMARS quarterly expenditure reports.
- KYDEM review prior periods and determine if the expenditure amounts in eMARS or on the SF-425 are correct. If there are expenditures not recorded in eMARS, then KYDEM should restate prior year financials to the correct amounts.
- Supply DMA Administrative Branch Manager with quarterly SF-425 reports and supporting documentation in a timely manner.
- Ensure amounts requested for reimbursement agree to SF-425 reports.
- Draw down all federal funds for reimbursement in a timely manner.

Management's Response and Corrective Action Plan

Kentucky Emergency Management (KYEM) has, and will continue to use eMARS, the state's accounting and official system of record, as the basis for any financial reporting. KYEM has requested the Department of Military Affairs (DMA) to provide a query for an accurate report of eMARS expenditures to reference when completing SF-425's. As of this date, a revised report has not been provided by DMA. KYEM may need to develop its own report in order to prepare for the end of the first quarter, March 30, 2013.

In direct response to this recommendation;

- *KYEM will continue to use eMARS, as has always been the procedure, as the basis for KYEM's SF-425 reporting.*
- *KYEM has requested that the DMA Chief Administrative Officer provide an accurate quarterly expenditure report from eMARS.*
- *KYEM will review prior period SF-425 reports to determine if there are expenditures not recorded in eMARS and will create any necessary restatements.*
- *Copies of the SF-425 reports will continue to be provided to DMA on a quarterly basis for its use to ensure drawdowns processed by DMA are in concert with the amounts reflected on the SF-425's.*
- *KYEM will initiate a weekly reminder to DMA of the need to process the federal draw down.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-70: The Department Of Military Affairs - Kentucky Community Crisis Response Board Failed To Reconcile And Submit Required Reports Within Specified Time Frames**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.032 - Crisis Counseling

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management and Reporting

Amount of Known Questioned Costs: \$ 0

During our audit of the Department of Military Affairs (DMA), we determined DMA-Kentucky Community Crisis Response Board (KCCRB) was failing to submit required federal reports for the Immediate Services Program (ISP), Crisis Counseling Grant. Our work revealed the final SF-425 Federal Financial Report was not submitted within 90 days of the grant's end date. Also, as of January 2013 the report still had not been submitted. Consequently, failure to submit the SF-425 timely prevents DMA from drawing down federal reimbursable funds from the Payment Management System (PMS) in a timely manner.

DMA-KCCRB had discrepancies and accounting issues with supporting documentation for expenses in conjunction with the ISP grant. The failure to reconcile between internal expense documents and the accounting system, eMARS, caused DMA-KCCRB to not file the required federal reports.

Failure on the part of DMA-KCCRB to reconcile and rectify supporting documentation issues led to the required SF-425 Federal Financial Report to not be submitted timely. Furthermore, failure in submitting the SF-425 prevents DMA-KCCRB from drawing down federal reimbursable funds from PMS in a timely manner.

The Department of Homeland Security (DHS) requires DMA-KCCRB to submit financial report, the SF-425, within 90 days after the end of the grants period of performance.

Recommendation

We recommend the Department of Military Affairs-KCCRB at a minimum:

- Reconcile all internal records/invoices to eMARS, the official accounting record keeping system of the state.
- Create an Expenditure, Receipt & Grant Budget Report to help with accurate completion of the SF-425 report.
- Submit the SF-425 within specified timeframe for federal reporting purposes.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-70: The Department Of Military Affairs - Kentucky Community Crisis Response Board Failed To Reconcile And Submit Required Reports Within Specified Time Frames (Continued)**

Management's Response and Corrective Action Plan

In the revised findings report dated 11 February 2013 it was noted that the auditor's had a finding of "control weakness" regarding the Office of the Kentucky Community Crisis Response Board (KCCRB) submitting a SF-425 Federal Financial Report for FEMA-DR-4057-KY Immediate Services Program (ISP) grant within 90 days of the grants end date.

Federal Emergency Management Agency (FEMA) Crisis Counseling Assistance and Training Program Guidance (CCP Application Toolkit, Version 3.4 May 2012) Page 38 Fiscal Reporting and Closeout Requirements; ISP Midprogram Report states that "The ISP Final Program Report is due to the FEMA Disaster Recovery Manager 90 calendar days after the last day of the ISP funding. If the State is awarded a Regular Service Program (RSP) grant, the report must describe the transition from immediate to regular services activities." (Of which KCCRB on behalf of the Commonwealth did provide). It further states, "A final voucher, prepared by the State emergency Management Agency SEMA must accompany the ISP Final Accounting of Funds. States must use the Federal Financial Report SF-425. All obligations must be liquidated, and the exact balance of funds must be indicated. The total expended funds must be consistent with the line-item report. The State should coordinate closely with the SEMA to ensure that the voucher and final accounting of funds are consistent and accurate."

KCCRB experienced difficulties with a contractor responsible for the delivering of Crisis Counseling Services, in gathering required invoices, receipts, payroll records and travel vouchers in a timely manner as prescribed in the Commonwealth's ISP grant application plan for fiscal monitoring and accountability procedures. Therefore, due to outstanding invoices for the ISP, KCCRB could not submit a SF-425 until all invoices were received, verified and processed. Additionally, there were approximately seven (7) JV2E eMARS action related to the ISP grant that were submitted by KCCRB fiscal officer in December, 2012. These actions were left in pending status waiting for level one approval by the Office of Management and Administration. On January 14, 2013 these actions were finally approved and processed. Again, KCCRB could not complete the SF-425 until these actions were finalized.

Finally, the grant guidance states, "The State should coordinate closely with the SEMA to ensure that the voucher and final accounting of funds are consistent and accurate." The Office of KCCRB has requested on numerous occasions to meet with the DMA fiscal officer to reconcile the eMARS reports created with our internal accounting records. To date, we have not received a response to our request to meet and reconcile these reports. As a result, On February 4, 2013 Executive Director made the decision to submit the Federal Financial Report SF-425 for the ISP CCP program DR 4057-KY to FEMA on behalf of the Commonwealth based on KCCRB's fiscal records.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-70: The Department Of Military Affairs - Kentucky Community Crisis Response Board Failed To Reconcile And Submit Required Reports Within Specified Time Frames (Continued)**

Management's Response and Corrective Action Plan (Continued)

Please note that this is the third ISP Crisis Counseling Grant that I have personally administered as the Executive Director of KCCRB. Executive Director has ensured the Commonwealth has always been in compliance with all Federal reporting requirements in past grants. FEMA would not continue to accept and award ISP grants to the Commonwealth if Executive Director, as the "Kentucky's Designated Mental Health Authority" were not compliant with the Federal reporting requirements. However, due to the aforementioned issues, KCCRB could not be in compliance with the 90 day reporting requirement for DR-4057-KY. KCCRB did ensure that continuous communication of the challenges preventing the timely filing of the SF-425 occurred with the appropriate FEMA representatives.

Revisions in contract language for future ISP grants with potential contract providers of crisis counseling services have been drafted to ensure timely compliance with fiscal reporting in the future. Additional internal DMA procedures will need to be developed with the Office of Management (OMA) and Administration to ensure timely processing and effective communication occurs between KCCRB and OMA.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-71: The Department Of Military Affairs - Kentucky Division Of Emergency Management (KYDEM) Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For Disaster 1818P**

State Agency: Department of Military Affairs

Federal Program: CFDA 97.036 - Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Federal Agency: U.S. Department of Homeland Security

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Known Questioned Costs: \$1,391,683

During our audit of the Kentucky Department of Military Affairs (DMA), we determined the DMA-Kentucky Division of Emergency Management (KYDEM) had not correctly reported expenditures on the SF-425 Federal Financial Report for Disaster 1818P. We examined the SF-425 reports and eMARS expenditure records for the time period 7/1/2011 through 6/30/2012. Our work revealed quarterly totals, which are cumulatively reported on the SF-425 reports, did not agree to the expenditures totals reported in eMARS, the state's accounting system. KYDEM reported \$183,749,077 on the 6/30/2012 SF-425 report, whereas eMARS for the same period reported \$182,357,394, causing an overstatement of \$1,391,683 for the fiscal year 2012 SF-425. Furthermore, DMA's Administrative Branch Manager relies on eMARS records as the basis for determining how much reimbursement money to draw down from the federal government.

DMA- KYDEM had discrepancies in previous quarterly SF-425 reports for the 1818P grant, which ultimately caused erroneous reporting of the FY12 quarterly reports. Furthermore, DMA KYDEM's failure to reconcile the quarterly reports to the eMARS accounting system caused incorrect amounts to be reported on the quarterly SF-425 reports.

Failure on the part of DMA-KYDEM to correctly report quarterly expenditures from the eMARS accounting system and reconcile prior period reports that were incorrectly reported caused the FY 12 required SF-425 Federal Financial Report to be incorrect.

EMARS, the states accounting system and official system of record at a minimum should be the starting basis for reporting.

Recommendation

We recommend the Department of Military Affairs-KYDEM at a minimum:

- Utilize eMARS, the state's official accounting system, as the basis for reporting.
- Ensure all amounts reported on SF-425 reports agree to eMARS quarterly expenditure reports.
- Reconcile all internal records/invoices to eMARS.
- Create an Expenditure, Receipt & Grant Budget Report to help with accurate completion of the SF-425 report.
- KYDEM review prior periods and determine if the expenditure amounts in eMARS or on the SF-425 are correct. If there are expenditures not recorded in eMARS, then KYDEM should restate prior year financials to the correct amounts.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DMA-71: The Department Of Military Affairs - Kentucky Division Of Emergency Management (KYDEM) Did Not Correctly Report Expenditures On The SF-425 Federal Financial Report For Disaster 1818P (Continued)**

Management's Response and Corrective Action Plan

Kentucky Emergency Management (KYEM) has and will continue to use eMARS, the state's accounting and official system of record, as the basis for any financial reporting. The KYEM Administrative Branch Manager has no control over the process of draw downs, either the amount or the timing. However, new procedures will be implemented to provide weekly requests by KYEM Administrative Branch, as a reminder to the Department of Military Affairs (DMA) to initiate the drawn down of federal funds to support reimbursement processes.

In direct response to this recommendation;

- *KYEM will continue to use eMARS, as has always been the procedure, as the basis for KYEM's SF-425 reporting.*
- *KYEM will continue to reconcile invoices with eMARS at the time of processing.*
- *KYEM has requested that the DMA Chief Administrative officer provide an accurate Expenditure, Receipt, and Grant Budget eMARS report for KYEM SF-425 reporting purposes.*
- *KYEM will review the referenced SF 425 reports and will make any restatements as necessary.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-DWI-72: The Department For Workforce Investment Did Not Prepare And Submit Federal Reports On Time

State Agency: Department for Workforce Investment

Federal Program: CFDA 17.225 - Unemployment Insurance

CFDA 17.225 - ARRA-Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

As part of our audit of the Department of Workforce Development, we tested the Unemployment Insurance Program for compliance with Reporting Requirements. During our FY 2012 testing we determined that the monthly ETA 902 reports were submitted late for 10 of the 12 months, with only reports for May and June 2012 filed in a timely fashion. The ETA 902 Report contains monthly data for Disaster Unemployment Assistance activities, such as the number of applications, the number of eligible participants, the amount of payments made, the duration of payments, and any administrative costs, when a disaster has been declared by the President.

Furthermore, the agency has had problems maintaining the needed records for submitting the ETA 902 reports. There have been communication issues related to what unit/division was responsible for administering the ETA 902 report.

The failure by DWI to prepare and submit the required ETA 902 reports may be attributed to the lack of policies and procedures requiring that the ETA 902 Report be submitted in a timely manner. In addition, management did not establish or clearly assign the ETA 902 responsibilities and functions to all units/divisions. The assigned division duties within each division should be written and communicated to all division personnel.

Failure to submit federally required ETA 902 reports on time constitutes a federal non-compliance. The ETA 902 reporting program is 100% reimbursed by the federal government. Failure to prepare and submit the ETA 902 Report may result in loss of funding to the Commonwealth. Additionally, the failure of management to communicate the responsibilities and monitor those activities may cause the ETA 902 to be filed late.

The Stafford Act, OMB 1205-0051 (ET Handbook 356) requires the following:

State agencies are required to furnish to the Secretary such information and reports and make such studies as the Secretary decides are necessary or appropriate for carrying out the purposes of the DUA program. These reports and studies include, but are not limited to, monthly activity reporting on disaster payment activities (ETA 90-2), monthly UI Financial Transaction Summary (ETA 2112 Report) (OMB No. 1205-0154), administrative costs and benefits on the Financial Status Report (SF-269) (OMB No. 0348-0039) (both of these financial reports are discussed in Chapter IX), and a final narrative summary report to the Secretary. This Chapter provides instructions to be followed by the States in reporting for the DUA program. (*See 20 CFR 625.16 and 625.19*)

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-DWI-72: The Department For Workforce Investments Did Not Prepare And Submit Federal Reports On Time (Continued)**

Agency management should monitor all activities on a continuous basis to ensure required financial reports are adequately administered and submitted timely. Clear written duties and responsibilities for each division should be established. The assignments should detail the division, key reporting documents, processes, and procedures for day-to-day operations, transactions, and timely submissions.

Recommendation

We recommend management ensure the ETA 902 reports are properly prepared and submitted on time. In addition, management should establish written responsibilities for each division related to federal ETA 902 reporting. The written responsibilities should be updated, monitored and communicated to all divisions.

Management's Response And Corrective Action Plan

Office of Employment and Training (OET) will ensure the ETA 902 reports are properly prepared and submitted on time. In addition, (OET) management will establish written responsibilities for each division related to federal ETA 902 reporting. The written responsibilities will be updated, monitored and communicated to all divisions.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-73: The Energy And Environment Cabinet Did Not Report Sub-Grants Under The Abandoned Mine Lands Reclamation Program As Required By The Transparency Act Of 2008**

State Agency: Department of Natural Resources

Federal Program: CFDA 15.252 - Abandoned Mine Lands Reclamation Program

Federal Agency: Office of Surface Mining, U.S. Department of Interior

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

The Energy and Environment Cabinet (EEC) failed to submit reports required by the Transparency Act of 2008 on nine sub-grants made to six different counties, cities, and water districts from the 30th Annual Grant in the Abandoned Mine Lands Reclamation (AMLR) program.

Discussions with personnel in the Division of Abandoned Mine Lands (AML) and General Administrative Program Services (GAPS, provider of centralized services to three cabinets - EEC, Public Protection Cabinet, and Labor Cabinet) revealed no one was aware of the responsibility to perform Transparency Act reporting for the AMLR program. Consequently, no sub-grants had been reported as of January 2013. Nine should have been reported during fiscal year 2012.

Information on Transparency Act reporting at 2 CFR § 170 in the Code of Federal Regulations describes the new requirement for prime recipients to report data on sub-grants and sub-contracts. Below are brief descriptions of the requirements followed by an analysis of how each applies to AMLR.

Sub-awards that must be reported: All sub-awards in the amount of \$25,000 or more made from applicable grants (described below) must be reported. In the AMLR program, these are water line grants made to counties, cities, and water districts.

Applicable grants: Recipients of grants made after October 1, 2010 must comply with Transparency Act reporting requirements. This applies to the 30th annual AMLR grant, which opened July 1, 2011 and will continue until June 30, 2014; subsequent grants will also be subject to Transparency Act reporting requirements. This does not apply to the 28th and 29th annual AMLR grants, also active during fiscal year 2012.

Data required to be reported: Grant recipients must report the subrecipient's name and award amount for all sub-grants from applicable grants in the amount of \$25,000 or more (note that this is the amount awarded, not the amount paid at any particular time). Recipients must report the names and total compensation for their own five most highly compensated executives when both of the following apply - the entity receives at least 80% of its annual gross revenue from federal sources, and the entity's annual gross revenue from federal sources is \$25 million or more; the law makes an exception when that information is already available to the public in SEC filings. Recipients must report the same data on the five most highly compensated executives of first-tier sub-recipients, subject to the same exception. The Commonwealth of Kentucky is not required to

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-73: The Energy And Environment Cabinet Did Not Report Sub-Grants Under The Abandoned Mine Lands Reclamation Program As Required By The Transparency Act Of 2008 (Continued)**

report executive data because its federal aid is well under 80% of the state's budget. AMLR subrecipients are too small to receive \$25 million or more in federal aid, and they very likely generate more than 20% of annual revenue from customer billings and other state and local sources. Therefore, AMLR is required only to report data on sub-recipient awards, not on executive compensation.

Report timing: Sub-awards must be reported by the end of the month after the month in which the sub-award was made.

Recommendation

We recommend AML management assign responsibility for Transparency Act reporting to an individual knowledgeable about water line grants, providing time and other resources necessary for that individual to become knowledgeable about Transparency Act reporting requirements and proficient in reporting.

Management's Response and Corrective Action Plan

We agree with the auditor's findings. AML had not been made aware of the reporting requirements of the Transparency Act. The Program Services Branch of AML will be responsible for entering the subrecipient's name and award amount for all waterline sub-grants in the amount of \$25,000 or more in the Federal Funding Accountability and Transparency Act Sub-award Reporting System (FSRS). Since KY DAML has already issued subgrants for the Kentucky FY 2013, we will enter all subrecipients who received awards after July 1, 2012. We will report sub-awards by the end of the month after the month in which the sub-award was made.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-74: The Energy And Environment Cabinet Did Not Ensure All Subrecipients Under The Abandoned Mine Lands Reclamation Program Obtained A-133 Audits When Required**

State Agency: Department of Natural Resources

Federal Program: CFDA 15.252 - Abandoned Mine Lands Reclamation (AMLR) Program

Federal Agency: Office of Surface Mining, U.S. Department of Interior

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

The Division of Abandoned Mine Lands (AML) and General Administrative Program Services (GAPS, which provides services to three cabinets - Energy and Environment Cabinet, Public Protection Cabinet, and Labor Cabinet), failed to perform required pre-award and audit-related monitoring of water line project grant subrecipients under the Abandoned Mine Lands Reclamation (AMLR) program during fiscal year 2012. Neither GAPS nor AML obtained DUNS numbers (Dun & Bradstreet's Data Universal Numbering System) for sub-awards made on or after October 1, 2010. GAPS did not ensure all subrecipients obtained an A-133 audit when required.

Audit procedures included an examination of monitoring performed for all 21 fiscal year 2012 active water line project sub-grants to 13 counties, cities, and water districts. DUNS numbers were absent from all 13 files for projects awarded on or after October 1, 2010.

GAPS requested information on A-133 audits from the 11 subrecipients with an active grant in the previous year. Of the 11, five subrecipients submitted an A-133 audit. Five did not respond to the first or second request, although two of the non-responding subrecipients received more than \$500,000 in federal funds from the AMLR program and were, therefore, required to obtain an A-133 audit. The remaining subrecipient submitted the wrong type of audit: a financial audit performed according to *Government Auditing Standards* instead of an A-133 audit also covering major federal program compliance. The subrecipient received more than \$500,000 in federal funds from the AMLR program, so an A-133 audit was required. GAPS failed to recognize the audit was not performed to the required standards. Neither GAPS nor AML imposed sanctions on the five subrecipients that failed to provide information or the subrecipient that obtained an inadequate audit.

Neither GAPS nor AML management knew about the new requirement, effective October 1, 2010, to obtain DUNS numbers prior to issuing sub-awards, resulting in failure to comply.

GAPS did not follow up with subrecipients not responding to requests for A-133 audit information due to a lack of procedures requiring appropriate action. Also, GAPS procedures do not fully utilize data available in the statewide accounting system. GAPS identifies subrecipients of grants from the three cabinets it serves, but does not summarize federal grant payments received from the state. Doing so would allow GAPS to identify subrecipients that must submit an A-133 audit because they received at least \$500,000 in federal funding through the state.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-74: The Energy And Environment Cabinet Did Not Ensure All Subrecipients Under The Abandoned Mine Lands Reclamation Program Obtained A-133 Audits When Required (Continued)**

Whether due to lack of knowledge about audit types or intentional deceit, the subrecipient's mislabeling of the financial audit as an A-133 audit was the primary cause for GAPS's failure to recognize non-compliance with audit requirements. An additional factor was limited experience and training for the employee assigned responsibility for A-133 audit monitoring.

AML did not follow up with or sanction subrecipients not supplying A-133 audit information because GAPS did not share information with AML.

The impact of these weaknesses is 13 sub-grants were made without obtaining a DUNS number when required. Five subrecipients did not furnish information about A-133 audits, when at least two of them should have obtained one. Major federal program compliance was not examined in the financial statement audit submitted in place of an A-133 audit. Because GAPS monitors A-133 audits for three cabinets, weaknesses in its procedures could result in monitoring deficiencies affecting dozens of federal programs.

The Code of Federal Regulations at 2 CFR §25 Appendix A prohibits making sub-awards to an entity that has not provided its DUNS number. It also requires recipients making sub-awards to notify potential subrecipients that no entity may receive a sub-award unless the entity has provided its DUNS number to the recipient.

The Office of Management and Budget published Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the Single Audit Act of 1996 (Amended). Single audits cover financial statements and major federal program compliance. At §_.400(d)(4) Circular A-133 requires pass-through entities (recipients that make sub-awards such as AMLR water line sub-grants to cities, counties, and water districts) to ensure that subrecipients expending \$500,000 or more in federal awards obtain an audit performed according to A-133. At §_.225 it requires pass-through entities to take appropriate action in cases of inability or unwillingness to obtain a required audit, such as withholding a percentage of federal awards, suspending federal awards, or terminating the federal award.

Recommendation

We recommend AML establish procedures on notification and collection of DUNS numbers, as required.

We recommend GAPS strengthen its procedures for monitoring subrecipients' A-133 audits. This should include communication with AML (and those responsible for other grants in the cabinets served by GAPS) when subrecipients fail to respond to requests for information. It should also include using InfoAdvantage reports to identify subrecipients receiving \$500,000 or more in federal awards through the state.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-74: The Energy And Environment Cabinet Did Not Ensure All Subrecipients Under The Abandoned Mine Lands Reclamation Program Obtained A-133 Audits When Required (Continued)**

Management's Response and Corrective Action Plan

The Office of General Administration and Program Support, Division of Fiscal Management has revised the MOA and PSC templates to incorporate that the sub-recipient/contractor provides their DUNS number. This change will be in all contracts regardless of the funding source, the requirement of submitting DUNS numbers must be met before contracts will be executed.

GAPS-Division of Fiscal Management is in the process of strengthening procedures for the monitoring of subrecipients' A-133 audits. The process will include following up with sub-recipients that have not submitted an audit and working with all assigned state agencies including AML to get the required audits submitted. In the event that a sub-recipient does not comply with the A-133 requirement, GAPS will work with the state agency grantee to determine what sanctions will be imposed against the non-compliant sub-recipient. The responsibility of monitoring A-133 audits has been reassigned to another staff member in GAPS that can dedicate the required time to monitor audits appropriately. GAPS will train this individual in appropriately identifying the requirement of an A-133 audit.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-75: The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections**

State Agency: Department of Natural Resources

Federal Program: CFDA 15.250 - Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining

Federal Agency: Office of Surface Mining, U.S. Department of Interior

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: \$ 0

The Department of Natural Resources (DNR) receives federal assistance to regulate surface mining in Kentucky under an agreement with the Office of Surface Mining (OSM). DNR has not performed as agreed in two significant areas: performance bonds and inspections.

DNR has experienced an increasing number of performance bonds that prove insufficient to cover the complete cost of reclamation in cases of bond forfeiture. OSM has studied bond forfeitures annually since FY 2007, noting concern about bond amounts. The FY 2012 study found the bond amount for 12 of 15 permits forfeited during FY 2011 was insufficient to reclaim the land to program standards.

DNR also has not performed all required inspections or hired enough inspectors to maintain agreed-upon caseloads. DNR currently inspects 1,850 coal mining permits which includes 880 surface mining permits, 629 underground mining permits and 341 permits for roads, preparation plants and refuse disposal areas. DNR has experienced a drop in inspection frequency for permits since 2008. For FY 2012, DNR met the required inspection frequency for 1,623 permits equaling 87.7% of permits. This level of inspection frequency is down from 97% in 2008 and 100% in 2000. DNR agreed to maintain a staffing ratio of one field inspector for every 24 inspectable units, but at the end of FY 2012 the ratio was one field inspector for every 27 inspectable units.

Reclamation bond calculation methods are specified in Kentucky Administrative Regulations rather than in DNR policies, so changes require due process. Minutes from the legislature's Administrative Regulation Review Subcommittee meeting at which the regulations in effect during most of fiscal year 2012 were repealed and the current regulation approved indicate the subcommittee considered the possibility that failure to act would lead OSM to resume regulation of surface mining in Kentucky, with the likelihood of a further 10 to 20% increase in bonding requirements and the loss of about \$48 million annually in federal support for the Abandoned Mine Lands Reclamation program. It appears bringing bond amounts in line with current costs requires substantial federal pressure.

State budget cuts since 2008 to the regulatory program have been effectively doubled since it is funded 50% federal, 50% state. The inability to match federal grant funding has led to de-obligation of nearly \$5 million of federal funds since FY 2008. This funding shortage and a significant number of retirements since 2008 have combined to create persistent understaffing of inspectors. This in turn impaired DNR's ability to perform all required inspections.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-EEC-75: The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections (Continued)

Bond computation methods according to 405 KAR 10:010 and 405 KAR 10:020 in use for the first ten months of FY 2012 yielded performance bond amounts insufficient to cover the cost of reclamation. We acknowledge DNR submitted to OSM emergency regulations signed by the Governor on May 7, 2012 and effective immediately for all new permits, major revisions, mid-terms and renewals. An updated bond computation spreadsheet became available July 26, 2012. The table below shows changes to bonding requirements and conveys the extent to which the previous calculation method was inadequate:

Facilities	Previous Amount	Proposed Amount	Percent Increase
Access Roads	\$1000/acre	\$2500/acre	150%
Sediment Structures	\$1500/permanent pond; \$5000/temporary	\$10,000/acre, minimum	100%
Refuse Disposal Areas	\$2500/acre, plus site factors = \$3500 average	\$7500/acre, plus site factors = \$9000 average	157%
Remining Areas	\$1500/acre, plus site factors = \$2500 average	\$2000/acre, plus site factors = \$3000 average	20%
All Other Mining Areas	\$2500/acre, plus site factors = \$3500 average	\$3500/acre, plus site factors = \$4500 average	29%
Supplemental Assurance	\$50,000/1,500ft, or additional pit	\$150,000/1,500ft, or additional pit	200%
Minimum Bond	\$10,000/ permit	\$75,000/permit or increment	650%

Staffing levels improved from 32 inspectable units per field inspector in FY 2009 to 27 inspectable units per field inspector in FY 2012, but this remains above the ratio of 24 inspectable units per field inspector agreed upon by DNR and OSM. Similarly, inspection frequency rose from 83% in FY 2009 to 88% in FY 2012, remaining well below the frequency of 98% or better in previous years. This led to 70% industry compliance in FY 2011 and FY 2012, the lowest level since FY 1990.

Since Kentucky operates a regulatory program approved by the Office of Surface Mining according to the Code of Federal Regulations at 30 CFR § 735, Kentucky Revised Statutes (KRSs) are relevant criteria. The requirement at KRS 350.060(11) states, in part, “The bond amount shall initially be computed to be sufficient to assure completion of reclamation if the work had to be performed by the cabinet in the event of forfeiture.”

As recorded in the Federal Register on July 31, 1998 at 63 FR 40825, DNR and OSM agreed to a field inspector staffing level of one per 24 inspectable units.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-75: The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections (Continued)**

Recommendation

We recommend:

- DNR should make the recalculation of existing active mining permit bonds a priority utilizing the bond computation spreadsheet revised July 26, 2012 so bond amounts will be more closely related to the actual costs of reclamation in case DNR is required to perform the reclamation activities. DNR should consider establishing a schedule for evaluating the cost assumptions underlying its bond calculations and recommending changes when needed.
- DNR should continue to emphasize the importance of meeting the frequency requirement for inspections of permits and utilize other enforcement staff to share workload.

Management's Response and Corrective Action Plan

Comment: "DNR has experienced an increasing number of performance bonds that prove insufficient to cover the complete cost of reclamation in cases of bond forfeiture. OSM has studied bond forfeitures annually since FY 2007, noting concern about bond amounts. The FY 2012 study found the bond amount for 12 of 15 permits forfeited during FY 2011 was insufficient to reclaim the land to program standards."

DNR Response: DNR agrees with the comment.

Recommendation: "DNR should make the recalculation of existing active mining permit bonds a priority utilizing the bond computation spreadsheet revised July 26, 2012 so bond amounts will be more closely related to the actual costs of reclamation in case DNR is required to perform the reclamation activities. DNR should consider establishing a schedule for evaluating the cost assumptions underlying its bond calculations and recommending changes when needed."

DNR Response: DNR agrees with the recommendations.

Corrective steps taken or will be taken: On May 4, 2012 DNR issued Reclamation Advisory Memorandum (RAM) #155 which describes the implementation of new performance bond calculation protocols and provides for a schedule of implementation. Effective on the above date, the Division of Mine Permits (DMP) began to apply changes in bond calculations in accordance with the emergency regulations contained in 405 KAR 10:015E (later replaced with ordinary regulation). The new bonding rates and procedures were immediately applied to new and amendment pending applications that had not been determined technically acceptable. All permits for which mining operations were ongoing, or current permits which may be idle but still have reserves yet to be mined will have the bonds evaluated and recalculated, if necessary as part of the mid-term review process. Additionally, the DNR has proposed establishment of a Reclamation Guarantee Fund (RGF) which would provide funding of reclamation should the

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-75: The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections (Continued)**

Management's Response and Corrective Action Plan (Continued)

posted bond for reclamation be insufficient to return the permit area to program standards in the event of forfeiture. The RGF is presently contained in House Bill (HB) 66 of the current legislative session. Finally, a schedule is contained in 405 KAR 10:015 Section 6(3) whereby the DNR will be required to review the bonding amounts at a minimum of every 2 years to determine if the amounts are adequate due to inflation and increases in reclamation costs.

Timeframe for actual or anticipated correction: The review of new financial assurance requirements for proposed and existing permits in accordance with regulatory requirements began on May 4, 2012 and is ongoing. Since May 4th, the Division of Mine Permits has initiated midterm reviews on 506 permits. Of the new bonds posted as a result of recalculation in accordance with the new protocols and regulation, the bond amounts have been an overall average of 55% higher than the previously approved bond amount. The anticipated implementation of the Reclamation Guarantee Fund (RGF) will be January 1, 2014, if the legislation is approved in its current form. Finally, DNR will be reviewing the bonding amounts for inflation and increases in reclamation costs in 2014 as required by regulations contained in 405 KAR 10:015 Section 6(3).

Comment: "DNR also has not performed all required inspections or hired enough inspectors to maintain agreed-upon caseloads. DNR currently inspects 1,850 coal mining permits which includes 880 surface mining permits, 629 underground mining permits and 341 permits for roads, preparation plants and refuse disposal areas. DNR has experienced a drop in inspection frequency for permits since 2008. For FY 2012 DNR met the required inspection frequency for 1,623 permits equaling 87.7% of permits. This level of inspection frequency is down from 97% in 2008 and 100% in 2000. DNR agreed to maintain a staffing ratio of one field inspector for every 24 inspectable units but at the end of FY 2012 the ratio was one field inspector for every 27 inspectable units."

DNR Response: DNR agrees with the comment.

Recommendation: "DNR should continue to emphasize the importance of meeting the frequency requirements for inspection of permits and utilize other enforcement staff to share workload."

DNR Response: DNR agrees with the recommendation.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-EEC-75: The Energy And Environment Cabinet Did Not Calculate Performance Bonds To Provide Sufficient Funding For Reclamation And Did Not Perform All Required Inspections (Continued)**

Management's Response and Corrective Action Plan (Continued)

Corrective steps taken or will be taken: During 2008 and 2009 the Division of Mine Reclamation & Enforcement (DMRE) experienced significant losses in experienced inspection staff and was unable to fill the resulting vacancies due to budget cuts. As a result, inspection workload for inspection staff increased and inspection frequency suffered. Beginning in 2011, the DMRE has placed an emphasis on utilizing a limited budget to hire and train inspection staff instead of replacing outdated equipment and worn out vehicles. With the limited resources, an emphasis was placed on training and increasing the frequency of quality inspections back to the historic averages in the high 90 percent range. Since 2011, inspection frequency has been increasing and in the last two quarters of CY 2012, has returned to historic high levels. While budgets remain limited, DMRE will continue to place the highest budget priority to filling inspection staff vacancies as they occur and training new inspectors. Inspection supervisory staff performs inspections as needed to assist inspectors in meeting required inspection frequency. Due to a reduction in mining activity, especially in Eastern Kentucky, and the current drop in new mining permits being issued, DNR expects a gradual drop in inspectable units in the near term. This economic condition should assist the DMRE in lowering the inspectable unit ratio to be more in line with the agreed upon ratio of 24 inspectable units per inspector going forward.

Timeframe for actual or anticipated correction: DNR implemented measures to increase the inspection frequency on mine permits in 2011. There has been a rapid improvement in inspection frequency culminating in inspection frequency rates for the last two quarters in CY 2012 of 99.5%. DMRE continues to emphasize inspection frequency as a priority.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDA-76: The Kentucky Department Of Agriculture Did Not Complete Five Percent Of Required Food Pantry On-Site Monitoring Visits

State Agency: Department of Agriculture

Federal Program: CFDA 10.568 - Emergency Food Assistance Program (Administrative Costs)
CFDA 10.568 - ARRA-Emergency Food Assistance Program (Administrative Costs)
CFDA 10.569 - Emergency Food Assistance Program (Food Commodities)

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

During our FY 12 audit testing of controls over compliance of The Emergency Food Assistance Program (TEFAP) administered by Kentucky's Department of Agriculture (KDA), we requested the on-site monitoring list of Eligible Recipient Agencies (ERAs - food banks) and Emergency Feeding Organizations (EFOs - food pantries) that were performed during the fiscal year. As we noted in the prior audit, the monitoring process was insufficient and incomplete by KDA as noted by the following problems:

- The monitoring tracking log demonstrated only 18 of the required 20 pantries were reviewed during the fiscal year.
- One pantry with an audit finding was not followed up on by management according to documents provided by KDA.
- KDA had not accurately communicated A-133 requirements to their subrecipients.

We also noted that KDA's method for tracking the subrecipients does not ensure that the list of food pantries participating in the TEFAP program is complete and up to date.

KDA's internal controls over subrecipient monitoring were not sufficient to ensure that all required reviews were completed and that deficiencies were followed up on by management at KDA. As a result, KDA did not fully comply with Federal Compliance requirements over subrecipient monitoring for the TEFAP program.

Without a complete listing of food pantries, KDA cannot ensure that all required monitoring visits are completed.

Per OMB Circular - A-133 Compliance Supplement for TEFAP for Subrecipient Monitoring:

A State agency must make on-site reviews of ERAs under its oversight and of distribution sites operated by such ERAs, in accordance with its distribution plan. At a minimum, the State agency's annual review coverage must include 25 percent of the ERAs that operate TEFAP as a subrecipient of the State agency and one-tenth or 20 (whichever is less) of the ERAs that operate TEFAP as subrecipients of other ERAs in the State. To the maximum extent practicable, review scheduling should enable State agency staff to observe TEFAP commodity issuance and prepared meal service operations (7 CFR section 251.10(e)(2)).

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDA-76: The Kentucky Department Of Agriculture Did Not Complete Five Percent Of Required Food Pantry On-Site Monitoring Visits (Continued)

Per Kentucky Department of Agriculture's State Distribution Plan for The Emergency Food Assistance Program for Corrective Action procedures:

The SA staff person, at the completion of each Food Bank, Food Pantry, or On-site Feeding review, will conduct an exit conference with the responsible agency person or site official. A confirming letter will be mailed to the responsible Food Bank within 30 days after the review, outlining (1) a description of the deficiencies found, (2) specific recommendations for corrective action and (3) the timetable for corrective action. The responsible Food Bank will be required to respond in writing within 30 days, describing the corrective action that has been taken. The SA will monitor the contracting agency's implementation of corrective action reports.

Good internal control dictates that supporting documentation should be maintained to support the on-site reviews conducted, the conclusions reached, approval of those reports by management, the communication of those reports to the monitored entity, and follow-up of any problems noted during the reviews.

Per the OMB Circular No. A-133 Subpart D--Federal Agencies and Pass-Through Entities§____.400 Responsibilities:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

- 1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- 2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- 3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- 4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KDA-76: The Kentucky Department Of Agriculture Did Not Complete Five Percent Of Required Food Pantry On-Site Monitoring Visits (Continued)**

- 5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- 6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Recommendation

While we have noted great improvement over subrecipient monitoring processes during this year's audit, we recommend that KDA continue this improvement by:

- Developing a system to track each monitoring visit to ensure that all reports, letters and follow up procedures occur as required.
- Creating a process to separately track each ERA's food pantry list and a monitoring history for each food pantry to ensure that the correct number of monitoring visits is performed each year.
- Creating written procedures related to the required on-site monitoring of food banks and food pantries. These procedures should ensure that KDA staff plans and tracks the monitoring of the required number of subrecipients and required follow-up of any findings that result from on-site monitoring.

With regards to the A-133 audit requirements, KDA has created a document with these requirements and is planning to add them to all contracts going forward once they are approved by USDA. We recommend KDA continue to review the A-133 audits from the subrecipients and follow-up on any/all findings.

Management's Response and Corrective Action Plan

We concur with the audit as to the sub-recipient monitoring finding. We have been working on making sure that the entire requirement is met. We plan on the Branch Manager of the TEFAP program developing procedures to ensure that all the report letters and follow up procedures occur. We will be tracking all food pantry reviews by food banks to ensure that we conduct the proper amount of reviews. The Branch Manager will be preparing a procedures manual for conducting onsite reviews.

In regards to the A-133 audit requirements, USDA has approved the procedures that we have put together and we have sent an amendment of the current contracts to all the Food Banks with the changes in the requirement. We have also updated the contract to include the A-133 requirement.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDA-77: The Kentucky Department Of Agriculture Did Not Agree Federal Reimbursements To Actual Grant Expenditures Per eMARS

State Agency: Department of Agriculture

Federal Program: CFDA 10.568 - Emergency Food Assistance Program (Administrative Costs)

CFDA 10.568 - ARRA-Emergency Food Assistance Program (Administrative Costs)

CFDA 10.569 - Emergency Food Assistance Program (Food Commodities)

Federal Agency: U.S. Department of Agriculture

Pass-Through Agency: Not Applicable

Compliance Area: Cash Management

Amount of Questioned Costs: \$ 0

As a part of our FY2012 audit of the Kentucky Department of Agriculture (KDA), we tested the Emergency Food Assistance Grant (TEFAP) program for compliance with federal cash management requirements. We noted that the first two of the four drawdowns of federal funds did not agree with the expenditures recorded in eMARS during the time period requested. One drawdown had a variance of \$104,470 and the other \$10,870. KDA's supporting documentation for these drawdown periods was inaccurate and not reliable. The auditor determined that KDA did not draw funds in excess of federal expenditures for the TEFAP program. However, the controls in place at the time of the first two federal drawdowns would not have prevented this from occurring.

We found that federal draws that occurred after the release of our 2011 audit did agree to KDA's supporting documentation and the auditor was able to agree these to eMARS without exception. This indicates that KDA effectively implemented changes to ensure that future federal draws are adequately supported.

The errors noted occurred because:

- KDA did not ensure cash receipts agreed to actual expenditures for the 2012 TEFAP grant.
- KDA did not maintain documentation to support cash receipts posted to the 2012 TEFAP program.

Therefore, we were not able to identify the expenditures associated with the first two draws.

The grant requires that KDA spend grant funding prior to receiving reimbursement for expenditures. KDA's internal controls over cash management were not operating effectively and KDA was not in compliance with this grant requirement for the first two draws. However, as noted, draws made after KDA implanted new procedures for federal drawdowns during FY2012 have corrected these problems.

OMB Circular A-133 Compliance Supplement Part 3 Page C-1 states, "When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government." This would include ensuring that draws from federal programs do not exceed actual state expenditures for the program.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KDA-77: The Kentucky Department Of Agriculture Did Not Agree Federal Reimbursements To Actual Grant Expenditures Per eMARS (Continued)**

Federal requirements for grantee financial management systems are detailed at 7 CFR Part 3016.20 Standards for financial management systems. In summary, these require using an accounting system that separately track activities of federal programs.

Recommendation

We recommend KDA continue to ensure that federal expenditures recorded to eMARS agree with the federal draws recorded for each grant/program period. Any excess payments for these additional grants, if discovered should also be repaid.

Management's Response and Corrective Action Plan

KDA has already implemented changes and improved internal controls over the grant process to ensure that receipt documents and federal reports are adequately reviewed and agree to eMARS for each grant/program period.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-78: Maintenance Of Effort Requirements Were Not Met For The Special Education Program (IDEA) Administered By The Kentucky Department Of Education

State Agency: Department of Education

Federal Program: CFDA 84.027 - Special Education-Grants to States

CFDA 84.173 - Special Education-Preschool Grants

CFDA 84.391 - ARRA- Special Education Grants to States, Recovery Act

CFDA 84.392 - ARRA- Special Education-Preschool Grants, Recovery Act

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Matching, Level of Effort, Earmarking

Amount of Questioned Costs: \$ 0

In general, states are not permitted to reduce the amount of financial support (i.e., Maintenance of Effort) from year-to-year as required under Part B of the Individuals with Disabilities Act (IDEA), including all Special Education programs. According to the Federal Maintenance of Effort requirements for the Special Education programs, a state may be permitted to reduce its spending when 1) the state receives a Federal waiver from the requirement; or 2) the federal financial support increases; however, the state may only reduce its contribution by 50% of the increase in federal financial support.

During our audit, we noted that the FY 2012 Maintenance of Effort requirement for the Special Education programs was not met. Based upon documentation provided by KDE, federal program funding for the Kentucky Special Education programs increased by \$5,054,526.48 from 2011 to 2012. Therefore, the maximum permitted decrease in state contribution for FY 2012 was \$2,527,263.24. KDE's budget for these programs decreased, however, by \$13,639,014.00 in FY 2012. No other KDE documentation was available to indicate that other state agencies provided additional support for the Special Education programs in order to meet the FY 2012 MOE level; nor did KDE request the optional federal waiver.

The majority of KDE's state assistance (approximately 82%) is from the Support Education Excellence in Kentucky (SEEK) program's Exceptional Child Add-On provision. For the FY 2012, the budgeted amount of Exceptional Child Add-On provision supporting KDE's Special Education programs was \$404,003,786, a decrease of \$12,456,614 from FY 2011. Because SEEK funding is formula-based, mandated by Kentucky Revised Statutes (KRS), KDE does not control the funding it receives for support of the Special Education programs. Consequently, the state program allocation for FY 2012 failed to comply with the federal MOE requirements.

In addition, the failure by the state and KDE to meet the Maintenance of Effort requirements for the Special Education programs during FY 2012 may also be attributed to the lack of internal controls to assure compliance with the federal program requirements. Accordingly, for FY 2012 KDE had no policies or procedures in place to monitor the state's MOE computation and/or documentation to support the tracking of state resources committed to the Special Education programs with respect to compliance with federal MOE program requirements.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-78: Maintenance Of Effort Requirements Were Not Met For The Special Education Program (IDEA) Administered By The Kentucky Department Of Education (Continued)

The failure by KDE and the state to provide financial resources to support the FY 2012 Special Education programs resulted in the noncompliance with federal MOE requirements. As a result, a reduction in subsequent federal assistance to the state's Special Education programs is possible.

In accordance with the Code of Federal Regulations Title 34, § 300.163 Maintenance of State financial support:

(a) General. A State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.

(b) Reduction of funds for failure to maintain support. The Secretary reduces the allocation of funds under section 611 of the Act for any fiscal year following the fiscal year in which the State fails to comply with the requirement of paragraph (a) of this section by the same amount by which the State fails to meet the requirement.

(c) Waivers for exceptional or uncontrollable circumstances. The Secretary may waive the requirement of paragraph (a) of this section for a State, for one fiscal year at a time, if the Secretary determines that—

- (1) Granting a waiver would be equitable due to exceptional or uncontrollable circumstances such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the State; or
- (2) The State meets the standard in § 300.164 for a waiver of the requirement to supplement, and not to supplant, funds received under Part B of the Act.

(d) Subsequent years. If, for any fiscal year, a State fails to meet the requirement of paragraph (a) of this section, including any year for which the State is granted a waiver under paragraph (c) of this section, the financial support required of the State in future years under paragraph (a) of this section shall be the amount that would have been required in the absence of that failure and not the reduced level of the State's support.

Recommendation

We recommend KDE implement policies and procedures requiring the monitoring and tracking of all state financial resources committed to supporting the Special Education programs with respect to the federal MOE requirements. The policies and procedures should require an imperative and timely communication to KDE and state budgetary personnel concerning MOE financial deficiencies. In addition, the policies and procedures should address circumstances in which a request to waive the IDEA, Part B State-level MOE requirements might be essential.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-78: Maintenance Of Effort Requirements Were Not Met For The Special Education Program (IDEA) Administered By The Kentucky Department Of Education (Continued)

Management's Response and Corrective Action Plan

<i>Kentucky Department of Education Budget</i>	<i><u>2010-2011</u></i>	<i><u>2011-2012</u></i>	<i><u>Change</u></i>
<i>Preschool</i>	<i>\$ 72,531,600</i>	<i>\$ 71,806,300</i>	<i>\$ (725,300)</i>
<i>Kentucky School for the Blind</i>	<i>6,826,500</i>	<i>6,641,500</i>	<i>(185,000)</i>
<i>Kentucky School for the Deaf</i>	<i>10,041,500</i>	<i>9,769,400</i>	<i>(272,100)</i>
<i>Exceptional Child Add-On - SEEK</i>	<i><u>416,460,400</u></i>	<i><u>404,003,786</u></i>	<i><u>(12,456,614)</u></i>
<i>Total</i>	<i><u>\$ 505,860,000</u></i>	<i><u>\$ 492,220,986</u></i>	<i><u>\$(13,639,014)</u></i>

The chart above depicts General Funds budgeted within KDE eligible to be considered in the Maintenance of Fiscal Support calculation for the IDEA grant. Of the \$13,639,014 difference, only \$1,182,400 is an actual reduction in support. The \$12,456,614 are funds that are determined by the criteria in SEEK funding formula, 702 KAR 3:270. This Exceptional Child Add-on is partially based on the number of students and the category they are classified.

KDE will review and update our tracking procedures for all federal grants with match and maintenance of effort requirements. Additionally, KDE is working with other state agencies that may provide support to the students eligible under the provisions of IDEA. We are also in communication with USDOE regarding the necessity of a waiver or some other exception.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-79: The Kentucky Department Of Education Did Not Comply With The Federal Transparency Act Reporting Requirements

State Agency: Department of Education

Federal Program: CFDA 84.010 - Title I Grants To Local Educational Agencies
CFDA 84.389 - ARRA- Title I Grants To Local Educational Agencies, Recovery Act
CFDA 84.027 - Special Education - Grants to States
CFDA 84.173 - Special Education - Preschool Grants
CFDA 84.391 - ARRA- Special Education Grants to States, Recovery Act
CFDA 84.392 - ARRA- Special Education-Preschool Grants, Recovery Act
CFDA 84.367 - Improving Teacher Quality State Grants
CFDA 84.377 - School Improvement Grants
CFDA 84.388 - ARRA- School Improvement Grants, Recovery Act
CFDA 84.287 - Twenty-First Century Community Learning Centers

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: \$ 0

The Federal Funding Accountability and Transparency Act (FFATA or Transparency Act), signed on September 26, 2006, requires the Federal Office of Management and Budget (OMB) to maintain a single, searchable website, FFATA Sub-award Reporting System (FSRS), containing information on all federal spending awards. The Transparency Act, therefore, establishes new reporting requirements for all “Prime Awardees” (e.g., Kentucky Department of Education) and their sub-recipients receiving new Federal grant funding greater than or equal to \$25,000 on October 1, 2010, or thereafter. Accordingly, the Kentucky Department of Education (KDE) is required to report newly awarded subcontracts of \$25,000 or more, as required under the Transparency Act, for all sub-awards issued on or after October 1, 2010.

During our audit, we determined that KDE did not comply with the Federal Transparency Act reporting requirements. Many new federal grants exceeding the \$25,000 threshold were awarded to school districts on July 1, 2011, and should have been reported by KDE on or before August 31, 2011 (the last day of the month following the month in which the sub-award obligation was made), in accordance with the Transparency Act. KDE explained that attempts had been made to complete timely Transparency Act reporting; however, they were unable to do so due to technical difficulties. Unfortunately, KDE did not maintain evidence to support their reporting attempts and/or correspondence with the Federal reporting agency expressing KDE’s reporting difficulties.

The inability by KDE to successfully comply with the Federal Transparency Act reporting requirements may be attributed to a misunderstanding of the new reporting requirements, as well as KDE’s incomplete Federal Transparency Act reporting policies and procedures, which include helpful instructions for technical reporting issues and support contact information.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-79: The Kentucky Department Of Education Did Not Comply With The Federal Transparency Act Reporting Requirements (Continued)

The failure to report timely the required Transparency Act information for all applicable federal grants constitutes a federal reporting noncompliance. KDE had attempted to comply with the applicable Transparency Act reporting requirements, however, experienced technical difficulties, and was unsuccessful. Although KDE provided evidence that accounts had been established for reporting through FSRs, there was no documentation to support that KDE had made timely “good faith” reporting attempts, nor was there dated correspondence available to confirm timely communication of their reporting difficulties with federal reporting support staff.

In accordance with OMB’s Open Government and Transparency requirements, prime awardees of federal grants are required to file an FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$25,000. The reporting requirements are as follows:

- This requirement is for both mandatory and discretionary grants awarded on or after October 1, 2010.
- All sub-award information must be reported by the prime awardee.
- For those new Federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000, reporting of sub-award and executive compensation data is required.
- If the initial award is below \$25,000 but subsequent grant modifications result in a total award equal to or over \$25,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$25,000.
- If the initial award equals or exceeds \$25,000 but funding is subsequently de-obligated such that the total award amount falls below \$25,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.

Recommendation

We recommend KDE immediately implement policies and procedures to assure compliance with the Federal Transparency Act reporting requirements. The policies should include requirements for maintaining adequate documentation as evidence of timely reporting and/or “good faith efforts” should technical reporting issues occur.

Management’s Response and Corrective Action Plan

KDE, Division of Budgets and Financial Management (DBFM) is aware of the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. As clearly outlined in your finding, due to technical difficulty with the reporting FFATA reporting site, reports were not submitted within the required timeframe. On January 30, 2013, DBFM received the notice that technical difficulties with the FFATA reporting site has been resolved (email attached). This is confirmation that timely submission was not possible. It would have been advantageous for a copy of the “screen shot” to have been kept for documentation. DBFM is working to submit reports for all grants. If technical difficulty arises in the future, the appropriate documentation will be kept to ensure an effort was made to submit the reports by the deadline.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-80: The Kentucky Department Of Education Failed To Enforce The Period Of Availability Requirements Related To Title I, Part A ARRA Funding

State Agency: Department of Education

Federal Program: CFDA 84.010 - Title I Grants To Local Educational Agencies

CFDA 84.389 - ARRA- Title I Grants To Local Educational Agencies, Recovery Act

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Period of Availability of Federal Funds

Amount of Questioned Costs: \$ 417,611

The American Recovery and Reinvestment Act (ARRA) of 2009: Title I, Part A: Funds for Grants to Local Education Agencies required that the local education agencies (i.e., school districts), receiving these state-administered awards, obligate at least 85% of total Federal Fiscal Year (FFY) 2009 Title I, Part A funds, including ARRA funds, by September 30, 2010. With the exception of an optional carryover waiver with certain restrictions, the remaining 15% of the Federal Fiscal Year 2009 Title I, Part A funds could only be carried over the final twelve months of the grant period ending September 30, 2011.

During our FY 2012 audit, we noted one instance where the Kentucky Department of Education (KDE) failed to enforce the Period of Availability requirements related to FFY 2009 Title I, Part A ARRA funding. As part of our testing, we determined that one Kentucky school district had obligated 37.63% of its funding by the fifteenth month of the grant's period (i.e., September 30, 2010); however, the school district did not obtain a carryover waiver from KDE, which would remove the 15% limitation of its remaining FFY 2009 Title I, Part A award through September 30, 2011. Furthermore, KDE permitted the school district to expend the remainder of the award amount. As such, it appears that \$417,611 should have been disallowed and is considered a questionable cost.

The failure by KDE to uphold the Period of Availability requirements related to the FFY 2009 Title I, Part A ARRA program may be attributed to the lack of internal controls to assure Federal program requirements. As such, KDE's internal controls failed to ensure that 1) the school district had obligated at least 85% of their FFY 2009 Title I, Part A ARRA funds by September 30, 2010; 2) the school district had received a carryover waiver to use more than 15% of their remaining FFY 2009 Title I, Part ARRA award for the period of October 1, 2010 through September 30, 2011; and 3) no additional FFY 2009 Title I, Part A ARRA funds were expended without an approved carryover wavier.

The failure by KDE to verify that all school districts had obligated a minimum of 85% of their FFY 2009 Title I, Part A ARRA funds by the required September 30, 2010 deadline, or had obtained the 15% limitation waiver, resulted in one school district's expending \$417,611 over the federally-authorized amount during the remaining twelve months of the period of availability.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KDE-80: The Kentucky Department Of Education Failed To Enforce The Period Of Availability Requirements Related To Title I, Part A ARRA Funding (Continued)**

In accordance with OMB Circular A-133 Compliance Supplement, Title I, Part A Cluster, Part 4 Cross-Cutting Section, Period of Availability of Federal Funds, Title I, Part A,

ARRA funds will remain available for obligation by SEAs and LEAs until September 30, 2011, which includes the one-year carryover period authorized under section 421(b) of the General Education Provisions Act, unless the SEA has received a waiver from ED to extend the period of availability (ED invited SEAs to apply for this waiver in September 2011). An LEA may carry over to the next fiscal year no more than 15 percent of its FY 2009 Title I, Part A allocation unless it receives a waiver from the SEA. An SEA may provide this waiver no more than once every 3 years. This 3-year limitation may be waived by ED due to the availability of ARRA funds (20 USC 1225(b); Section 1603 of ARRA; Section 1127 of ESEA (20 USC 6339)).

Recommendation

We recommend KDE implement internal controls to ensure that all Title I, Part A period of availability requirements are met, and that related school district program costs are allowable with respect to the period of availability parameters.

Management's Response and Corrective Action Plan

KDE, Division of Budgets and Financial Management (DBFM) has appropriate measures in place to ensure districts adhere to the 15% carryover limitation for Title I Part A. Approximately 60 days before the September 30 cutoff, the Division of Consolidated Plans and Audits (DCPA) notifies district of the carryover requirement with information on the process to request a waiver. DBFM will increase the oversight of the monitoring of the Title I 15% carryover limitation. This will occur by having the Grants Staff responsible for tracking the 15% carryover provide a log to the Grants Management Branch Manager and the Program Branch Manager.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests

State Agency: Department of Education

Federal Program: CFDA 84.287 - Twenty-First Century Community Learning Centers

Federal Agency: U.S. Department of Education

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

The Kentucky Department of Education (KDE) requires all subrecipients of the Twenty-First Century Community Learning Centers (21st CCLC) program to submit quarterly expenditure reports, along with their quarterly program reimbursement requests. The school districts involved in the program utilize the Municipal Uniform Information System (MUNIS) for tracking program expenditures, and are required to classify their expenditures in accordance with the MUNIS Funding Matrix object codes presented on KDE's website. KDE maintains the allowable Funding Matrix object codes based upon the Federal grant program provisions. The other subrecipients that do not utilize MUNIS (e.g., non-profit organizations), however, must track their expenditures by other means. Consequently, KDE's requirements for supporting the 21st CCLC quarterly program reimbursement requests are inconsistent between the school districts and the non-school districts.

During our audit, we noted that sixteen school districts and one non-profit organization had submitted expenditure reports that included charges against, or budgeted to, unallowed MUNIS object codes. Based upon KDE's MUNIS Funding Matrix, the object codes submitted for federal program reimbursement were either unallowable codes, or were designated as not applicable ("N/A"). As a result, likely questioned federal program charges totaling \$17,441 were identified, including forty-two unallowable MUNIS object codes submitted along with the quarterly reimbursement requests.

The reimbursement of unallowed 21st CCLC program expenditures is due to failure by KDE to implement internal controls to assure that all expenditures submitted by the various subrecipients have been adequately reviewed and approved for allowable federal program costs. In addition, the failure by the subrecipients to utilize the allowable MUNIS Matrix Object Codes or submit adequate supporting documentation may be attributed to insufficient training and/or instruction with regards to the allowable expenditures for the 21st CCLC program.

The lack of internal controls over the review and approval of 21st CCLC subrecipient reimbursement requests resulted in \$17,441 of likely questionable federal program charges. Likewise, the insufficient oversight of program charges increases the risk of additional federal program noncompliance. Furthermore, KDE's deficiency of program expenditure oversight permits 21st CCLC subrecipients to continue to submit invalid MUNIS object codes and questionable costs.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

In accordance with the Federal Office of Management and Budget's OMB Circular A-133, Part 6 - Internal Control, Control Activities should include, but are not be limited to, internal controls to assure:

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed and cost principles.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.

Recommendation

We recommend KDE implement policies and procedures to ensure that internal controls over 21st CCLC expenditures are for allowable federal program costs. The policies should specify the methodology for determining the validity of program charges by subrecipients prior to reimbursement by KDE. The determination by KDE of acceptable program costs should be consistently applied to all subrecipients (i.e., school districts and non-school districts). In addition, KDE should provide instructions and/or training on allowable federal program costs to all 21st CCLC program staff responsible for the processing of submitted reimbursement requests. Likewise, such instructions and/or training should be provided to all 21st CCLC subrecipients.

Management's Response and Corrective Action Plan

The review of 21st Century Community Learning Centers (CCLC) payment request is a collaborative effort between the Division of Budgets and Financial Management (DBFM) and the Division of Learning Services (DLS) program staff. DBFM and DLS have appropriate measures in place to ensure 21st CCLC programs adhere to the Funding Matrix. However, the two divisions will become consistent in the manner in which it reviews the requests.

Upon review of the "Likely Questioned Costs", the expenditures were allowable expenditures; however, they were either approved conditionally based on the local project's specific activity or miscoded. To rectify this matter, the 21st CCLC Funding Matrix is currently being updated to be consistent with its review process. If a report has an incorrect code, the local 21st CCLC project director and finance officer are notified of the error and asked to submit a revised report. Reimbursement is pending until the revised report is received.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

Management's Response and Corrective Action Plan (Continued)

An explanation of the allowable expenditures which were miscoded or coded in unallowable code follows:

Expenses charged to:

- 0294 Federally Funded Health Care Benefits*
- 0295 Federally Funded Life Insurance Benefits*
- 0296 Federally Funded State Administration Fee*
- 0297 Federally Funded Spending Benefits*

These were listed as N/A. With guidance provided at trainings, these were allowable for 21st Century Project Directors and Site Coordinators. When regular school day classified employees were working an hour or two in the afterschool program MUNIS would automatically charge the grant accordingly for these expenses. These employee benefits were already being covered from other local sources and this led to the "supplanting" issue. After consultation with the Division of District Support, it would not have been "cost effective" to have a code set up for classified employees; therefore, districts were advised to "manually" back out these charges. There is a code for certified staff, 0113 Other Certified Staff-not part of contract, used that does not automatically pull these codes which is used for teachers providing services in afterschool.

*The 21st Century Funding Matrix will be revised for codes 0294-0297 to reflect:
Yes, but only for Project Director and Site Coordinator. Other staff with KDE approval.*

Expenses charged to:

- 0432 Technology Related Repairs and Maintenance*
- 0738 Instructional Equipment*

In the past, these codes were not allowable expenditures. Due to the increased focus on Science, Technology, Engineering and Math (STEM) in afterschool programs and the emphasis on College & Career Readiness on the state level and national level, 21st Century programs have been allowed to utilize these codes. Kentucky 21st Century programs have been providing STEM related activities that require the instructional equipment to support these applications and programs. With the increased use of instructional equipment, the technology related repairs and maintenance is allowable. These codes had not previously been changed because KDE was seeking additional guidance from the USDE and the administrative guidebook (provided 2011) was being revised; therefore KDE was approving the codes on a case by case basis. Additionally, KDE needed to ensure that subgrantees were requesting prior approval before making purchases.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

Management's Response and Corrective Action Plan (Continued)

The 21st Century Funding Matrix will be revised for codes 0432 and 0738 to reflect: Yes, must be specific to 21st CCLC program. Contact KDE for approval.

There were some unallowable codes used but had been discussed via telephone call with the program office. For example, 0616 Food Instructional Non Food Service was charged in instances where School Food Services was not available. Kentucky 21st Century has not been able to have the state level School & Community Nutrition office "mandate" to their staff that they will provide services to 21st Century programs. Some of the district School Food Service personnel work well with 21st Century programs but some do not and the faith based and community based organizations do not have access to School Food Service. In these cases it is allowable to use grant funds for food. During summer programming there are instances where School Food's cannot provide service. It is the expectation of USDE that students participating in 21st Century programs be provided a snack or meal to participants even if School Food Services do not provide the items.

Information from the RFA:

Centers are recommended to participate in the USDA National School Breakfast/Lunch Program (including meal supplements) and offer a daily, nutritious meal or snack that meets the program's requirements based on their hours of operation. Meal/snack requirements are as follows:

- *Only afterschool (daily, nutritious snack);*
- *Both before and after school (daily nutritious breakfast and snack); and*
- *Non-school days (daily nutritious breakfast, lunch and/or snack, depending on hours of operation).*

The 21st Century Funding Matrix should be revised for code 0616 to reflect: Yes, but only with KDE approval.

Regarding the quarterly reports for 21st CCLC for non-school districts, a unique quarterly report will be developed to ensure that all are using the same form.

As for providing training to 21st CCLC programs, adequate and intensive training is provided throughout the school year. Attached is a copy of the 2012-2013 21st CCLC training schedule.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

Management's Response and Corrective Action Plan (Continued)

21st CCLC

July 1, 2012-September 30, 2013

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|------------------|--|
| <i>July</i> | <ul style="list-style-type: none"> • <i>July 1, 2012 new state fiscal year & new state biennium begins</i> • <i>July 17, 2012 Regional NPASS Training, Corbin, KY</i> • <i>July 19, 2012 Regional NPASS Training, Russell Springs, KY</i> • <i>July 23, 2012 Regional NPASS Training, Richmond, KY</i> • <i>July 26, 2012 Regional NPASS Training, KY Dam Village, KY</i> • <i>Quarterly expenditure reports should be available from district finance offices/organizations and requests for reimbursements can be made. Reports/requests should be submitted by to KDE July 25, 2012</i> |
| <i>August</i> | <ul style="list-style-type: none"> • <i>School Begins-21st CCLC</i> |
| <i>September</i> | <ul style="list-style-type: none"> • <i>September 26-28, 2012 Multi-State Conference and Director's Meeting in Nashville, TN</i> • <i>September 15, 2012 5502S reimbursement requests must be submitted.</i> • <i>September 30, 2012 end of federal fiscal year</i> • <i>September 30, 2012 project 5501 5501J funds end and funds should be expended or encumbered</i> • <i>September 30, 2012 end of first quarter</i> |
| <i>October</i> | <ul style="list-style-type: none"> • <i>October 1, 2012 new federal fiscal year begins</i> • <i>October 17, 2012 21st CCLC Advisory Council Meeting – Hyatt Place, Louisville, KY</i> • <i>Quarterly expenditure reports should be available from district finance offices/organizations and requests for reimbursements can be made. Reports/requests should be submitted to KDE by October 25, 2012</i> |
| <i>November</i> | <ul style="list-style-type: none"> • <i>November 1, 2012 Technical Assistance Training – Capital Plaza Hotel, Frankfort, KY</i> • <i>November 7, 2012 Technical Assistance Training – Ramada Conference Center, Paintsville, KY</i> • <i>November 8, 2012 Technical Assistance Training – Holiday Inn University Plaza & Sloan Convention Center Bowling Green, KY</i> • <i>November 15, 2012 all requests for reimbursement of project 5501, 5501J funds must be received by KDE</i> |

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

Management's Response and Corrective Action Plan (Continued)

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| <i>December</i> | <ul style="list-style-type: none"> • <i>December 6, 2012 21st CCLC Advisory Council Meeting – Marriott East, Louisville, KY (Advisory Council members only)</i> • <i>December 7, 2012 How to Cultivate Youth Leadership, Engagement, and Interaction – Marriott East, Louisville, KY</i> • <i>December 12-14, 2012 Grant Reviewer Training – Capital Plaza Hotel, Frankfort, KY</i> • <i>December 31, 2012 end of second quarter</i> |
| <i>January</i> | <ul style="list-style-type: none"> • <i>Quarterly expenditure reports should be available from district finance offices/organizations and requests for reimbursements can be made. Reports/requests should be submitted to KDE by January 25, 2013</i> • <i>January 24, 2013 21st CCLC Advisory Council Workgroup – KYOSA Office, Frankfort, KY</i> • <i>January 31, 2013 Regional Training – ECU Perkins Building</i> |
| <i>February</i> | <ul style="list-style-type: none"> • <i>February 8, 2013 YPQA Basics Training – Marriott East, Louisville, KY</i> • <i>February 12, 2013 Regional Training – Corbin Tech Center</i> • <i>February 13, 2013 Regional Training – Russell Springs</i> • <i>February 15, 2013 Regional Training – KY Dam Village</i> • <i>February 26, 2013 Regional Training – Ashland</i> • <i>February 27, 2013 Regional Training – Northern KY</i> |
| <i>March</i> | <ul style="list-style-type: none"> • <i>March 5-6, 2013 Level I / Orientation for New Grantees/Staff – ECU Perkins Building, Richmond, KY</i> • <i>March 26, 2013 21st CCLC Advisory Council Meeting – Marriott East, Louisville, KY</i> • <i>March 27, 2013 Summer Learning Training Intro Part I – Marriott East, Louisville, KY</i> • <i>March 28, 2013 More Strategies to Empower Youth in Your Program – Marriott East, Louisville, KY</i> • <i>March 29-30, 2013 KYCSACC/21st CCLC Annual Spring Institute – Marriott East, Louisville, KY</i> • <i>March 31, 2013 end of third quarter</i> |

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KDE-81: The Kentucky Department Of Education Reimbursed Unallowed Twenty-First Century Community Learning Center Program Expenditures Due To A Failure To Implement Internal Controls To Assure Sufficient Review And Approval Of Cost Reimbursement Requests (Continued)

Management's Response and Corrective Action Plan (Continued)

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|------------------|--|
| <i>April</i> | <ul style="list-style-type: none"> • <i>April 25 & 26, 2013 Level II Training – ECU Perkins Building, Richmond, KY – ECU, Richmond, KY</i> • <i>Quarterly expenditure reports should be available from district finance offices/organizations and requests for reimbursements can be made. Reports/requests should be submitted by to KDE April 25, 2013</i> |
| <i>May</i> | <ul style="list-style-type: none"> • <i>May 7, 2013 21st CCLC Advisory Council Meeting – Crowne Plaza, Louisville, KY (Advisory Council Members only)</i> • <i>May 8, 2013 YPQA Planning with Data Training – Crowne Plaza, Louisville, KY</i> • <i>May 9, 2013 Summer Learning Training Intro Part II – Crowne Plaza, Louisville, KY</i> |
| <i>June</i> | <ul style="list-style-type: none"> • <i>June 30, 2013 end of fourth quarter</i> • <i>June 30, 2013 end of state fiscal year</i> |
| <i>July</i> | <ul style="list-style-type: none"> • <i>July 1, 2013 new state fiscal year begins</i> • <i>Quarterly expenditure reports should be available from district finance offices/organizations and requests for reimbursements can be made. Reports/requests should be submitted by to KDE July 25, 2013</i> |
| <i>August</i> | <ul style="list-style-type: none"> • <i>August – School Starts</i> |
| <i>September</i> | <ul style="list-style-type: none"> • <i>September, 2013 Multi-State Conference and Director's Meeting – location TBA</i> • <i>September 30, 2013 end of first quarter</i> • <i>September 30, 2013 end of federal fiscal year</i> • <i>September 30, 2013 project 5502 funds end and funds should be expended or encumbered</i> |

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-82: Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 - Highway Planning and Construction

CFDA 20.205 - ARRA- Highway Planning and Construction

CFDA 20.219 - Recreational Trails Program

Federal Agency: U.S. Department of Transportation - Federal Highway Administration

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed or Unallowed

Amount of Questioned Costs: \$ 0

During the FY12 audit of the KYTC, we requested contractor performance reports for 20 contracts from the Division of Construction Procurement. Contractor performance reports are required to be completed in January for the prior calendar year for multi-year projects. There were 14 contracts out of 20 for which contractor performance reports were not on file in the Division of Construction Procurement. Upon contacting the Division of Construction, we determined the reports were either not done or not submitted to the Division of Construction Procurement.

This issue was brought to the attention of KYTC in FY10 and FY11 and some corrective actions were taken. Additional action will be needed since the performance reports are still not being done or submitted as required.

The Division of Construction Procurement uses the contractor performance reports to determine an average performance rating, which is used to calculate the contractor's maximum eligibility amount. By not submitting the reports, the maximum eligibility amount for a contractor may not change and this may result in the contractor not being able to bid on desired projects. Contractors have an incentive to perform quality work if their maximum eligibility amount can increase as a result.

49 CFR 18.40 (a) states:

- (a) Monitoring by grantees. Grantees are responsible for managing the day to- day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.

The Instructions and Guidelines for Contractor Performance Report on the Division of Construction's website states:

For 'end-of-project' evaluations, the Section Engineer has ten (10) business days to submit the completed Contractor's Performance Report to the CDE [Chief District Engineer].

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-82: Contractor Performance Reports Are Not Completed And Submitted To The Division Of Construction Procurement Timely (Continued)

For projects spanning one calendar year, an “annual” evaluation is required, the Section Engineer is responsible for seeing that the “end-of-year” evaluations are completed and submitted to the CDE by the December 31st of that year.

The CDE then has ten (10) business days to review the Contractor’s Performance Report and have it sent to the Contractor with the appeal application. The TEBM [*Transportation Engineering Branch Manager*] for Project Delivery and Preservation is responsible for forwarding the completed report to all recipients including forwarding a copy to the Division of Construction Procurement after the Appeals Deadline has expired.

Recommendation

We recommend KYTC:

- Review the contractor performance reporting process. The research report precipitating the performance report was issued 12 years ago. Transportation should continue to evaluate and review the process to determine if adjustments are needed, as well as continue with the study to be released in June 2013 by the University of Kentucky Transportation Center.
- Implement methods to ensure performance reports are both completed and submitted timely to the Division of Construction Procurement.
- Consider implementing a thresh-hold amount for which performance reports will be filed by KYTC.

Management’s Response and Corrective Action Plan

The Division of Construction has been actively reminding all section offices of the requirements for completing and submitting performance reports. This was apparent by the increased number of performance reports submitted to the Division of Construction Procurement so far in FY13.

Both Divisions have reviewed the current contractor performance reporting process. While it would be desirable to await the results of the Kentucky Transportation Center research project before changing the process, we do not anticipate that it will be released in 2013. In the meantime, both Divisions have discussed proceeding with some changes that will improve the process. It is difficult for field offices to remember to complete a performance report when duration of the work is small and it questionable if a report on a small amount of work should carry the same weight as a larger one. Therefore, one change being considered is setting a threshold for conducting a performance report. This would greatly reduce the number of evaluations required to be done while not negatively affecting the overall process. In addition, we are contemplating the idea of automatically defaulting to an average score for all reports unless the field office noted the contractor’s performance differed. Both Divisions will continue to remind all offices of the current requirements. Also, we will solicit feedback from the contracting community on upcoming changes prior to implementation.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-83: The Kentucky Transportation Cabinet Did Not Complete Desk Reviews For Three Subrecipients

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 - Highway Planning and Construction

CFDA 20.205 - ARRA- Highway Planning and Construction

CFDA 20.219 - Recreational Trails Program

Federal Agency: U.S. Department of Transportation - Federal Highway Administration

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

The Kentucky Transportation Cabinet (KYTC) is responsible for monitoring all subrecipients for the Highway Planning and Construction Program (CFDA 20.205). As part of the monitoring process, KYTC completes desk review checklists documenting KYTC's review of the subrecipients' audit reports. During our testing, we noted desk reviews were not requested and were not completed for three subrecipients, who received over \$500,000 from KYTC.

KYTC personnel send requests to the Office of Audits' Internal Audit Branch requesting subrecipient audit reports to be evaluated and desk reviews to be completed if applicable. According to KYTC personnel, requests for subrecipient audit report evaluations were not requested for the three audit reports in question. The monitoring process is not functioning effectively to ensure subrecipient audit report evaluations and applicable desk reviews are performed.

OMB Circular A-133, Subpart D, §____.400 (d) states:

A pass-through entity shall perform the following for the Federal awards it makes:

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Recommendation

We recommend KYTC:

- Review current subrecipient audit report tracking procedures and determine if changes are necessary to ensure all subrecipients expending over \$500,000 receive an audit and a desk review if applicable.
- Designate an individual or department to annually review the subrecipients listed on the Schedule of Expenditures of Federal Awards and evaluate whether an annual audit and desk review is required.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KYTC-83: The Kentucky Transportation Cabinet Did Not Complete Desk Reviews For Three Subrecipients (Continued)**

Management's Response and Corrective Action Plan

In October 2012, KYTC issued a new policy regarding subrecipient monitoring – GAP 1208. Under this new process, which is quoted below, the Office of Audits will work with program managers to ensure required audits/certifications are obtained.

To ensure subrecipients obtain required audits, each department, office, and division project manager shall:

- *Send a letter annually (Exhibit 9114) (a copy of which to be included in the project file) to subrecipients asking them to send their OMB Circular A-133 audit or certification that they have not spent over \$500,000 in federal funds from all sources to the Office of Audits Internal Audit Branch.*
- *Send the Office of Audits a correspondence log noting to whom the letter was sent, letter's date, contact information, and due date of the audit report.*
- *If an A-133 audit is required, Office of Audits' Internal Audit Branch will ensure that the audit is received 9 months after the end of the subrecipient's fiscal year.*
- *If subrecipients failed to obtain a required audit in accordance with OMB Circular A-133, the Internal Audit Branch shall follow up with the subrecipients until the audit is completed, while documenting all correspondence to obtain the late audit reports using the A-133 Tracking Summary (to be included in the project file). The Internal Audit Branch will inform the project manager if a subrecipient fails to submit the audit report. The project manager will withhold reimbursements until the subrecipient complies as noted below.*

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-84: The Kentucky Transportation Cabinet Did Not Perform And/Or Document Site Visits

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 - Highway Planning and Construction

CFDA 20.205 - ARRA - Highway Planning and Construction

CFDA 20.219 - Recreational Trails Program

Federal Agency: U.S. Department of Transportation - Federal Highway Administration

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$ 0

The Kentucky Transportation Cabinet (KYTC) is responsible for monitoring all subrecipients for the Highway Planning and Construction Program (CFDA 20.205). We requested progress reports and site visit documentation for 12 subrecipients, two of which received American Reinvestment and Recovery Act funds, to verify the subrecipients were monitored. The 12 subrecipients were listed on the FY 2012 Schedule of Expenditures of Federal Awards (SEFA). We noted:

- For nine of the 12 subrecipients, no progress reports were on file and no site visit documentation was available.
- For one of the 12 subrecipients, the subrecipient was listed on the SEFA incorrectly and was actually a vendor.

According to KYTC personnel, monitoring is performed through the subrecipient submitting information to receive “notice to proceed” approval throughout the project; project development checklist completion; and field representatives completing end of project reports. Also, a subrecipient monitoring policy was developed and issued in October 2012. In addition, KYTC personnel worked with FHWA to develop a revised LPA Guide issued in January 2012.

Documentation of progress reports and site visits was not available for review. Without proper monitoring, KYTC does not know if the subrecipient is in compliance with federal requirements and KYTC is not in compliance with OMB Circular A-133.

OMB Circular A-133, Subpart D, §____.400 (d) states:

A pass-through entity shall perform the following for the Federal awards it makes:

- (4) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-84: The Kentucky Transportation Cabinet Did Not Perform And/Or Document Site Visits (Continued)

Per OMB Circular A-133 Compliance Supplement Part 3 Subrecipient Monitoring states:

Monitoring activities normally occur throughout the year and may take various forms, such as:

- Reporting - Reviewing financial and performance reports submitted by the subrecipient.
- Site Visits - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- Regular Contact - Regular contacts with subrecipients and appropriate inquired concerning program activities.

Regarding the SEFA, OMB Circular A-133 states that at a minimum, “To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.” Vendors should not be listed in the SEFA.

Recommendation

We recommend KYTC:

- Maintain documentation of a project monitoring activities. This may include the project’s progress records of contacts, and site visits.
- Consider revising the reimbursement request form to include a section for the project’s status or request a summary of the consultant’s inspection reports, if applicable, be attached.
- Determine if personnel need additional training on the criteria distinguishing subrecipients and vendors since only subrecipients should be reported on the SEFA.

Management’s Response and Corrective Action Plan

Response By Office Of Local Programs

In 2009, the Transportation Cabinet began implementing several changes to the way Local Public Agency (LPA) projects are monitored by the Cabinet. The Cabinet compiled the Federal-Aid Highway Program Project Development Guide for Local Public Agencies (LPA Guide), which was approved by the Federal Highway Administration (FHWA). These changes have led to an increase in the review of and involvement in, projects by OLP staff. The OLP Project Manager must approve each phase of the project and are in constant contact with the project sponsors. This includes reviewing the procurement of professional services and construction procurement, approving change orders, reviewing and approving reimbursement requests, approving budget or scope of work changes, and approving the project’s Project Development

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KYTC-84: The Kentucky Transportation Cabinet Did Not Perform And/Or Document Site Visits (Continued)**

Management's Response and Corrective Action Plan (Continued)

Checklist (PDC) prior to issuing a notice to proceed with the construction phase. While we do monitor the projects closely to ensure compliance with all applicable federal guidelines, the LPAs are entrusted to handle some aspects on their own, and be able to provide their files for review if necessary. This is documented in the contract between the LPA and KYTC, and the LPA certification form completed by the LPAs as part of their application process. In order to better document our communications with the LPAs, the OLP will do the following:

- *Create a document for use in documenting phone calls, meetings, or site visits that can be placed in the project file.*
- *Revise the OLP Reimbursement Request Form to include a "Project Status" as a required part of the form.*
- *Request a summary of inspection reports from the engineer doing the construction inspection to be placed in the project file.*

Response By Office of Audits

As far as the issue of recording a vendor on the SEFA as a subrecipient, KYTC personnel can contact the Division of Accounts as well as the Office of Audits to help them determine if federal fund recipients are vendors or subrecipients. Guidance for determining if a recipient is a vendor or subrecipient is also included in the policy issued in October 2012. The Division of Accounts, Program Billing Branch will review the SEFA for possible vendors and seek clarification for those that appear questionable in the future.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 12-KYTC-85: The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements

State Agency: Kentucky Transportation Cabinet

Federal Program: CFDA 20.205 - Highway Planning and Construction

CFDA 20.205 - ARRA - Highway Planning and Construction

CFDA 20.219 - Recreational Trails Program

Federal Agency: U.S. Department of Transportation - Federal Highway Administration

Pass-Through Agency: Not Applicable

Compliance Area: Davis-Bacon Act

Amount of Questioned Costs: \$ 0

The Kentucky Transportation Cabinet (KYTC) is required to follow the provisions of the Davis Bacon Act and other Related Acts on construction contracts greater than \$2,000. Contractors and subcontractors submit payrolls for each week or pay period. During the KYTC FY12 audit, we selected 12 contracts exceeding \$2,000. Each contract had a prime contractor along with varying numbers of subcontractors. We reviewed contracts and payroll records for five prime contractors and seven subcontractors and noted:

- For two contractors and five subcontractors, no payroll had been submitted.
- For three contractors and one subcontractor, payrolls were missing or late.
- For one contractor, payroll records were not date stamped.

KYTC is not ensuring all contractors and subcontractors required to submit payroll records are submitting the payrolls and submitting the payrolls timely. Missing and late payrolls were issues in FY11 and some corrective actions were taken by KYTC to correct the issues; however, we still noted similar problems during FY12. KYTC cannot determine if the payroll records are submitted timely if the records are not date stamped.

29 CFR 3.3 (b) Weekly Statement With Respect To Payment Of Wages in pertinent part states:

Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to wages paid each of its employees engaged on work covered by this part 3 or part 5 of this chapter during the preceding weekly payroll period.

Good internal controls dictate KYTC ensure payroll records are date stamped to verify timely receipt.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 12-KYTC-85: The Kentucky Transportation Cabinet Did Not Comply With Davis Bacon Act Requirements (Continued)**

Recommendation

We recommend KYTC determine additional procedures to ensure compliance with Davis Bacon Act requirements.

Additional procedures could include:

- Continuing to randomly select a sample of contractor files and verify all payrolls were received. This review should be documented.
- Stress to staff the importance of date stamping payroll records when received.

Management's Response and Corrective Action Plan**Division of Construction**

Construction Memo No. 05-12 was issued on July 2, 2012 advising that changes had been made to the Construction Guidance Manual requiring that the contractor now submit the certified payrolls to the Section Engineer's (SE) Office. The Section Engineer staff ensures that all payrolls have been submitted by contractors that are actively working on their projects and then forward them to the Division of Construction Procurement. The Section Office would be more knowledgeable of who was working on their projects as opposed to someone in the Central Office. We discussed this change in procedure during the Fall 2012 Section Engineer's Meeting with the Project Delivery and System Preservation Branch Managers and is again on the agenda for the 2013 Spring Section Engineers Meeting. We also discussed this at the Construction Manager's Academy the Department recently held in the Fall of 2012. With this being a recent change in procedure, the frequent reminders will help get this new procedure established.

Division of Construction Procurement

The audit covered a review of payroll records from the previous fiscal year when the contractors were submitting directly to the Division of Construction Procurement (DCP). This has been an area of weakness that DCP has been unable to correct hence the change in policy. The construction office employees working daily with the contractors would have a better knowledge of which contractors are working and, therefore, who should be submitting payrolls. Also, these are the same offices processing progress payment and could easily hold these payments if payrolls were not submitted correctly and timely. Currently, there are some issues with the new process, but through training and presentations at the yearly Construction meeting, we expect improvements.

We reminded construction field office employees in the Construction Managers Academy last week to date stamp payrolls when received. This will also be covered next week at the Section Engineer's meeting.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

There were no findings to report in this category.

(2) Audit findings not corrected or partially corrected:

FY11	11-DMA-63	The Department Of Military Affairs Should Strengthen Controls Over 1801 Reimbursements For The Chemical Stockpile Emergency Preparedness Program	97.040	15,403	See 12-DMA- 56
FY10	10-DMA-55	The Department Of Military Affairs Should Ensure CSEPP Subrecipient Reimbursement Requests Are Properly Reviewed And Include Valid Supporting Documentation	97.040	7,691	See 12-DMA-56
FY11	11-KDA-64	The Kentucky Department of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring	10.568 10.569	0	See 12-KDA-76
FY10	10-KDA-56	The Kentucky Department of Agriculture Should Implement And Follow Formal Policies And Procedures For Subrecipient Monitoring	10.568 10.569	0	See 12-KDA-76

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid or does not warrant further action:

There were no findings to report in this category.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 11	11-CHFS-66	The Cabinet For Health And Family Services Should Require Third Party Contractors And Managed Care Organizations To Submit An SSAE 16 Audit	93.775 93.777 93.778	0	Resolved during FY 12
FY 11	11-CHFS-68	The Department For Medicaid Services Should Implement And Document Formal Procedures For Ensuring Proper Maintenance Of The Edits And Audits On The MMIS System	93.775 93.777 93.778	0	Resolved during FY 12
FY11	11-DMA-74	DMA Should Strengthen And Implement Controls For Audit Requirements Pertaining To Subrecipient Monitoring Within The Chemical Stockpile Emergency Preparedness Program	97.040	0	Resolved During FY 12
FY11	11-DWI-76	The Department For Workforce Investment Should Ensure Subrecipient A-133 Audit Reports Are Properly Monitored	17.258 17.259 17.260	0	Resolved During FY 12
FY11	11-KDA-77	The Department Of Agriculture Should Ensure All Federal Reports Agree To The State's Accounting System	10.568 10.569	0	Resolved During FY 12
FY11	11-KDA-78	The Kentucky Department Of Agriculture Should Ensure Federal Matching Requirements Are Met And Supported By The State's Accounting System	10.568 10.569	2,640	Resolved During FY 12
FY11	11-KDA-80	The Kentucky Department Of Agriculture Should Implement Procedures To Ensure Payments Are Made With In The Period Of Availability	10.568 10.569	9,125	Resolved During FY 12

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY10	11-KDA-71	The Kentucky Department of Agriculture Should Not Charge Expenditures To Grants After The Period Of Availability Has Expired	10.568 10.569	26,822	Resolved During FY 12
FY11	11-KDE-83	The Kentucky Department Of Education Should Refrain From Charging Employee Salaries And Benefits To Federal Programs Without Adequate Documentation	84.027 84.173 84.391 84.392	37,764	Resolved During FY 12
FY11	11-KDE-84	The Kentucky Department Of Education Should Ensure Subrecipients Comply With Federal Cash Management Requirements	84.367	135,450	Resolved During FY 12
FY11	11-KDE-85	The Kentucky Department Of Education Should Ensure Use Of Reliable Data In Performing School District Maintenance Of Effort Calculations	84.367 84.010 84.389	0	Resolved During FY 12
FY11	11-KYTC-89	The Kentucky Transportation Cabinet Should Ensure Subrecipients Sign Contracts With Winning Bidders	20.932	0	Resolved During FY 12
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 11	11-CHFS-65	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	See 12-CHFS-57
FY 11	11-CHFS-67	The Cabinet For Health And Family Services' Department of Community Based Services Should Ensure Staff Is Knowledgeable In Ensuring Eligibility For Medicaid Members And Retain Appropriate Documentation To Support Eligibility Determinations	93.775 93.777 93.778	0	See 12-CHFS-59

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY 11	11-CHFS-69	The Department For Medicaid Services Should Properly Account For Drug Rebate Receivables	93.775 93.777 93.778	0	See 12-CHFS-62
FY 11	11-CHFS-70	The Department For Medicaid Services Should Require Timely Submission Of Audited Cost Reports From Inpatient Hospitals	93.775 93.777 93.778	0	See 12-CHFS-63
FY 11	11-CHFS-71	The Department For Medicaid Services Should Ensure Documentation Is Maintained To Support Provider Eligibility And Implement Formal Procedures For Re-credentialing Providers	93.775 93.777 93.778	0	See 12-CHFS-60
FY 11	11-CHFS-72	The Cabinet For Health And Family Services Should Improve Electronic Benefits Transfer Card Security In Local Offices	10.551 10.561	0	See 12-CHFS- 66
FY 11	11-CHFS-73	The Cabinet For Health And Family Services Should Ensure All DCBS Office Maintain Case Files In Accordance With Federal Requirements	93.558 93.714	0	See 12-CHFS-67
FY 10	10-CHFS-58	The Cabinet For Health And Family Services Should Maintain Supporting Documentation In Accordance With The State Plan	93.775 93.777 93.778	0	See 12-CHFS-59
FY10	10-CHFS-59	The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan	93.775 93.777 93.778	0	See 12-CHFS-60
FY10	10-CHFS-60	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	See 12-CHFS-57

COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY10	10-CHFS-63	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices	10.551 10.561	0	See 12-CHFS-66
FY10	10-CHFS-64	The Cabinet For Health and Family Services Should Ensure The Jefferson County DCBS Office Maintains Case Files In Accordance With Federal Requirements	93.558 93.714	0	See 12-CHFS-67
FY11	11-DMA-75	The Department Of Military Affairs Should Ensure Only Eligible Payroll Expenses Are Billed For Reimbursement In The Chemical Stockpile Emergency Preparedness Program	97.040	0	See 12-DMA-68
FY11	11-KDA-79	The Kentucky Department Of Agriculture Should Implement Procedures To Ensure Subrecipient Audit Findings Are Properly Resolved	10.568 10.569	0	See 12-KDA-76
FY11	11-KDA-81	Kentucky Department Of Agriculture Should Implement Internal Controls To Ensure Compliance With Federal Cash management Requirements	10.568 10.569	25,982	See 12-KDA-77
FY10	11-KDA-70	The Kentucky Department Of Agriculture Should Ensure Subrecipients Are Compliant With Federal Audit Requirements	10.568 10.569	0	See 12-KDA-76
FY11	11-KDE-82	The Kentucky Department Of Education Should Strengthen Its Procedures To Ensure Expenditures Are Not Charged To Federal Programs After The End Of The Period Of Availability Of Federal Funds	84.010 84.389 84.027 84.173 84.391 84.392 84.377 84.388	120,611	See 12-KDE-80

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected(Continued):</i>					
FY11	11-KYTC-86	The Kentucky Transportation Cabinet Should Ensure Contractor Performance Reports Are Completed And Submitted To The Division Of Construction Procurement Timely	20.205	0	See 12-KYTC-82
FY11	11-KYTC-87	The Kentucky Transportation Cabinet Should Ensure Compliance With Davis Bacon Act Requirements	20.205	0	See 12-KYTC-85
FY11	11-KYTC-88	The Kentucky Transportation Cabinet Should Ensure Desk Reviews Are Completed Timely	20.205	0	See 12-KYTC-83
FY10	10-TC-72	KYTC Should Ensure Compliance With Davis Bacon Act Requirements	20.205	0	See 12-KYTC-85
FY10	10-TC-74	KYTC Should Ensure Subrecipient Desk Reviews Are Completed Timely	20.205	0	See 12-KYTC-83
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings to report in this category.					
<i>(4) Audit finding no longer valid or does not warrant further action:</i>					
FY 09	09-CHFS-74	The Cabinet For Health And Family Services Should Maintain Recertification Documentation In Accordance With The State Plan	93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY 09	09-CHFS-75	The Cabinet For Health And Family Services Should Maintain Documentation To Support Provider Eligibility In Accordance With The State Plan	93.778	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Significant Deficiencies/Noncompliances (Continued)</u>					
<i>(4) Audit finding no longer valid or does not warrant further action (Continued):</i>					
FY 09	09-CHFS-79	The Cabinet For Health And Family Services Should Update The KASES System	93.563	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY 09	09-CHFS-85	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices	10.551 10.561	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY09	09-TC-89	The Kentucky Transportation Cabinet Should Adhere To Established Procedures To Ensure Compliance With The Davis Bacon Act	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY 09	09-CHFS-85	The Cabinet For Health And Family Services Should Improve The Security Over EBT Cards Received At Local Offices	10.551 10.561	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.
FY 09	09-TC-89	The Kentucky Transportation Cabinet Should Adhere To Established Procedures To Ensure Compliance With The Davis Bacon Act	20.205	0	Two or more years have passed since the audit report in which this finding was submitted to the Federal Clearinghouse. The Federal Agency is not currently following up on this audit finding.

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APPENDIX

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2012**

This report is available on the APA website, www.auditor.ky.gov in pdf format. For other requests, please contact Gregory Giesler, Open Records Administrator, with the APA's office at (502) 564-5841 or Gregory.Giesler@auditor.ky.gov. If copies of the FY 12 CAFR are required, please contact Lori H. Flanery, Finance and Administration Cabinet Secretary, at (502) 564-4240 or Lori.Flanery@ky.gov.

The following is a list of individuals by state agency to contact regarding federal award findings listed in the Schedule of Findings and Questioned Costs or the Summary Schedule of Prior Audit Findings.

Agency	Contact
Cabinet for Health and Family Services	Kelli Hill, Assistant Director Division of General Accounting Cabinet for Families and Health Services 275 East Main Street 4E-A Frankfort, KY 40601 Phone (502) 564-8890
Department of Military Affairs	Charles R. Flynn, Chief Administrative Officer Division of Administrative Services Department of Military Affairs Boone National Guard Center 100 Minuteman Parkway, EOC Building Frankfort, KY 40601 Phone (502) 607-1545
Energy and Environment Cabinet	Steve Hohmann Commissioner, Department of Natural Resources 2 Hudson Hollow Frankfort, KY 40601 (502)564-6940
Kentucky Department of Agriculture	Bill Wickliffe, Director Division of Food Distribution Department of Agriculture 107 Corporate Drive Frankfort, KY 40601 (502)-573-0439
Kentucky Department of Education	Charles Harman, Director Division of Budget & Financial Management Capital Plaza Tower 500 Mero Street, 16th Floor Frankfort, KY 40601 (502)564-2351 ext. 4326

**COMMONWEALTH OF KENTUCKY
APPENDIX
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)**

Agency	Contact
Transportation Cabinet	Alice Wilson, Executive Director Office of Audits Transportation Cabinet 200 Mero Street 4E Frankfort, KY 40622 Phone (502) 564-6760

